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INTERNATIONAL LABOUR OFFICE

**THE COMMON INTEREST
IN
INTERNATIONAL
ECONOMIC ORGANISATION**

by

J. B. CONDLIFFE and A. STEVENSON

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PREFACE

Only by exchanging goods and services between, as well as within, nations can the peoples of the world take full advantage of the varied endowments of different countries in climate and natural resources, in skill and capital. Only with the aid of specialisation and exchange can production and living standards be raised to the levels which modern advances in science and technique have made possible. Only thus, moreover, can the different countries and regions of the world build up the mutually advantageous economic relations essential to the speedy re-establishment of economic order and prosperity after the war.

In a resolution which outlined the economic policies required for the attainment of social objectives¹, the Philadelphia Session of the International Labour Conference recognised explicitly "the great contribution which the international exchange of goods and services can make to higher living standards and to high levels of employment". The Conference accordingly urged the United Nations to take vigorous action to promote the expansion of international trade. By the terms in which it did so it showed at the same time a keen appreciation of the complexity and difficulty of the problem.

As the experience of the inter-war years clearly disclosed, the fact that an expansion of world trade is desirable does not make it easy to achieve. Successive international conferences recommended the reduction of trade barriers, but in fact these barriers grew steadily more numerous and more effective. As the Philadelphia Conference realised, the problem is not one which can be solved by unco-ordinated national action or by international action directed solely to tariffs and other direct obstructions to trade. More liberal commercial policies are a prerequisite to any substantial expansion in trade; but they are unlikely to suffice, and may themselves make little progress, unless parallel action is taken in the related fields of exchange stabilisation and international lending. In the case of the exchanges, for example, the experience of the inter-war period showed how currency devaluation, under-

¹ The parts of this resolution which relate to international trade are reproduced in an appendix to the present study: see pp. 128-129 below.

taken in the hope of expanding exports, could lead to reprisals which restricted the volume of trade; and it showed conversely how currency appreciation, such as occurred when sterling was restored in 1925 to its pre-1914 gold parity, could raise the cost of goods (in this case British exports) to buyers in other countries and lead to widespread and persistent unemployment in industries and areas dependent on the export trade.

The complexity of the problem and the obstacles hitherto encountered in all efforts to solve it have raised doubts as to the practicability of promoting any great expansion of international trade in the post-war world. Such doubts are strengthened by the emphasis which post-war plans for social security and full employment are apt to place on national as distinct from international economic policy, and by the fact that the consequences of failure to secure these objectives are more obvious, and therefore politically more formidable, than the consequences of failure to achieve the most favourable international division of labour. At the same time, because of the spread throughout the world of modern methods of mass production and the development of substitutes for many of the natural raw materials which hitherto have bulked large in world trade, those who identify the advantages of international trade in general with those of a particular pattern of international economic relationships, are inclined to question the reality, in modern conditions, of the benefits which such trade has traditionally been assumed to yield.

Because of these doubts, and because of the need for wider understanding of the relation between international trade, employment and living standards, as a basis for a constructive post-war international economic policy, the International Labour Office has felt that it could render a service by publishing a simple statement of the benefits to be derived from international trade in the conditions of the modern world and of the ways in which these benefits might be secured without endangering the economic development and full employment on which social security and higher living standards must be based. For such a statement the Office has enlisted the services of J. B. Condliffe, Professor of Economics in the University of California and Associate Director of the Division of Economics and History of the Carnegie Endowment for International Peace, whose earlier writings in this field have gained an international reputation and whose first-hand knowledge of the Pacific, the Far East, Europe and North America is such as to ensure an awareness of the special conditions and problems of different regions of the world. In preparing the report Professor Condliffe has had the assistance of Alexander Stevenson,

Research Associate in the Division of Economics and History of the Carnegie Endowment for International Peace, and has worked in consultation with E. J. Riches, Acting Chief of the Economic and Statistical Section of the International Labour Office.

The report consists of five chapters. The first two define and clarify five main objectives of post-war economic and social policy: higher living standards, full employment, social security, economic development and international collaboration. The third chapter analyses the changing conditions of production and trade, with special reference to monopolistic competition and tendencies to instability, and examines the case for freer trade. Chapter IV discusses the special problems of transition from war to peace economy. The final chapter argues that positive national policies designed to maintain employment and improve the lot of the ordinary citizen are compatible with an increased volume of international trade—provided that appropriate international machinery is created through which such national policies can be cleared and co-ordinated.

The pattern of future international economic organisation thus outlined is, of course, tentative in character. Like the analysis on which it is based, it expresses the individual views of the authors. The study as a whole is published in the hope that it will contribute to a wider understanding of the part which improvements in international economic organisation may play in promoting the basic objectives of economic and social policy.

The International Labour Office.

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I. THE FOUR FREEDOMS

This is a people's war. The nearer one comes to the fighting fronts, the truer this statement becomes. The "underground" in Europe is a popular front. It is not confined to one economic class or dependent upon particular economic ideologies; but it could not function except with the sympathy of the great mass of the people. There is great significance also in the fact that the army which has done most so far to smash the strength of the Axis in Europe is a people's army which can count not only on admirable generalship, trained forces and mechanisms, but upon stubborn partisans behind the lines, and, in great crises, upon the embattled populations of besieged cities. In China, the long struggle, now in its thirteenth year, could not have been maintained if the common people had not been resolutely united in opposition to the invader. The British people also, in their fortitude under bombings and in their great effort of economic discipline and production, have gained new cohesion and strength. Whenever the United Nations have been able to draw upon the united and sustained resistance of the masses of the population they have been invincible. They have lost where the masses have been apathetic or hostile.

There is another sense also in which this war, perhaps more than any other in history, has depended upon popular support for its effective prosecution. Great as are now the armies deployed on battlefronts that circle the globe, they represent only the spear-head of the great phalanx of workers behind the lines. Modern war uses to the full the mechanisms of modern industry and transport. The fighting men use weapons that call for a supreme effort of scientific invention, planned organisation and mass production. Ships fight with unseen enemies below the horizon or beneath the surface of the sea using detection apparatus developed in scientific laboratories. War production calls for new materials and new methods of organisation. But in the long run the unceasing flow of food, materials and weapons depends primarily upon sustained labour and curtailment of civilian supplies. A greater proportion of the total population than in any previous war is engaged directly or indirectly in the war effort—by actual labour, by taxation, by lending, and by being rationed. The proportion of national budgets devoted to civilian purposes becomes almost insignificant compared

with war expenditures. The volume of production and the proportion of manpower devoted to the civilian sector of national economies constantly shrinks.

It is inevitable, therefore, that the issues arising from the conduct of the war, and in increasing measure the principles upon which a settlement may be based after the war, must be of vital concern to the people as a whole. This is a conflict not of nations, but of beliefs. It is perhaps primarily a struggle for national survival, but in a sense much wider than the mere preservation or extension of territorial sovereignties. It is not a struggle to preserve the particular political, economic and social institutions by which the United Nations have sought to safeguard their independence and liberties; but rather a struggle to preserve the opportunity of determining and developing such institutions by the democratic process. When this principle has been vindicated, and while it is being vindicated, many complex issues will arise concerning the institutional mechanisms to be established for the preservation of peace and the achievement of more equitable and efficient economic systems.

Already a momentous change can be noted in the drift of public discussion of these issues. Vague and inconclusive as such discussion must necessarily be at this stage of the war, one fact is very clear. It is concerned with much broader questions than was the similar but less widespread discussion that arose during the last war. This is perhaps truest of the economic and social questions now being debated.

Students of the last war period have remarked that "during the War, labour was not so narrowly preoccupied with the protection of its own interests as to bring to the peace negotiations an overwhelming demand for its recognition. On the contrary it spoke not merely for itself but for humanity at large. Its programme, taken as a whole, dealt with social justice the world over rather than with the narrow issues of domestic economic welfare."¹

This is again true. Organised labour, and the associations of private citizens concerned with the conduct of the war and the principles of post-war organisation, have concentrated their attention upon the broad issues of a lasting and guaranteed peace. The Atlantic Charter, to which the United Nations subscribed by their initial Declaration, expresses this preoccupation in its emphasis upon the four freedoms. There is no doubt of the concern which ordinary people feel first for the winning of the war and then for such measures of settlement and collective security as will enable

¹ James T. SHOTWELL (ed.): *The Origins of the International Labor Organisation* (Columbia University Press, 1934), Vol. I, p. 56.

the nations, individually and collectively, to embark upon policies aiming at prosperity as well as peace.

When, in the closing stages of the last war, the attention of citizen groups was turned to the economic aspects of post-war reconstruction, it is obvious that, in their different ways, practically all of these groups conceived economic reconstruction in terms of restoring the pre-war structure. While this structure was by no means wholly of a *laissez faire* type, since the beginnings of social security and some measure of State enterprise were functioning in most countries, there was little effort to change the type of organisation. The universal prescription was "the mixture as before". Sir William Beveridge, to give one example, after recounting the story of the British food control, came to the conclusion that "the Ministry of Food, suppressing private enterprise completely, accomplished what private enterprise in the War could never have accomplished. The British people were fed not only better and more cheaply than without the Ministry they could possibly have been fed in the War, but probably on the whole better than before the War, because wages were relatively high, work was regular, and distribution fair." Nevertheless his final conclusion, after canvassing the arguments for and against continuing the control in peacetime was "a personal doubt of any gain either to consumer or producer from public regulation of food supply in peace, that would repay the cost of the vast organisation involved, or justify diversion to it of any of the limited store of political energy and ability needed for more urgent problems, or outweigh the risk of bribery by subsidies".¹

This was the conclusion reached by an economist who had at least considered both sides of the question; but the overwhelming majority opinion at the close of the last war was in favour of speedy abolition of wartime controls. It is significant of the change in this war, however, that the first United Nations conference has been called to consider questions of agricultural organisation and improved nutrition standards. So much attention has been centred in recent years upon the desirability of improving physical health and vigour, that there is now widespread acceptance of the need for positive action towards that end.

Another illustration of the acceptance of the pre-war framework was to be seen in the preoccupation of organised labour after the last war with the restoration of hard-won standards and practices. The national and international conferences which asserted the right of organised labour to a place at the peace table, and which finally

¹ Sir William H. BEVERIDGE: *British Food Control* (New Haven, 1928), Chapter XVI.

led to the negotiations that created the International Labour Organisation, were generous and forthright in their support of collective security and a just peace. But when they came to labour's interest in economic reconstruction their demand was primarily to safeguard the right to organise and to maintain or restore standards and workshop practices. The story is very clear in the statements made by individual participants in the negotiations as well as in the documents recording the resolutions of organised groups.¹

Perhaps the clearest expression of this view is to be found in the preamble to the resolutions of the international trade union conference at Leeds, July 1916, which reads:

The Conference declares that the peace treaty which will terminate the present war and will give to the nations political and economic independence should also ensure to the working class of all countries a minimum of guarantees of a moral as well as of a material kind concerning the right of coalition, emigration, social insurance, hours of labour, hygiene, and protection of labour, in order to secure them against the attacks of international capitalistic competition.²

It is true that then, as now, there was much concern about employment, though this was often qualified, as in the resolution of the Leeds Conference referred to above, as "the right to work wherever he can find employment". The "question of preventing or providing against unemployment" figured as the second item on the agenda for the First Session of the International Labour Conference, held at Washington in October 1919³; but it was neither as specific nor as documented as the items dealing with the eight-hour day, the employment of women and children and the extension and application of international conventions on the model of those already promoted by the International Association for Labour Legislation. The work of the I.L.O., therefore, began along the line of promoting Conventions to establish minimum labour standards.

During the inter-war years, however, two great sets of forces, one negative and the other positive, carried public opinion far on the road to a realisation that labour standards are dependent upon effective economic organisation. This is not to say that the setting of standards has ceased to be important; but merely to accept the elementary economic fact that the attainment and preservation of decent standards is dependent upon efficient production.

¹ James T. SHOTWELL, *op. cit.*

² *Ibid.*, Vol. II, p. 23.

³ *Ibid.*, p. 453.

This fact was forcibly brought home by the great depressions which followed in the wake of the first world war. Prolonged mass unemployment was not of course a new phenomenon. It was responsible for great misery after the Napoleonic Wars, after the United States Civil War, and after the Franco-Prussian War of 1870. Indeed the severity of depressions and the suffering from unemployment were greatest in the post-war periods of falling prices from 1819 to 1849 and from 1873 to 1895 and relatively light in the upswing of the price level from 1850 to 1873 and from 1896 to 1914.

The period between the first and second world wars, however, was too short for effective adjustment. Many other factors—such as the increased proportion of urban employment, the more effective administration of economic nationalism, a greater rigidity of prices, and the more stubborn resistance of organised labour to the lowering of wage levels and standards which had formerly been used to break out of depression—accentuated the problem of unemployment. The consciousness of these facts is now widespread so that the provision of “full employment” now ranks high among the objectives of post-war planning. As will be made clear later, this objective needs to be clearly distinguished from the guarantee of employment to returned soldiers which was so marked a feature of the last war years and such an embarrassing commitment in the demobilisation period.

One sharp lesson of the inter-war years has been that organisation to defend or restore previous standards is not enough. In the last war, as now, trade unions gained great strength. Their bargaining power was enhanced by war conditions. Their funds were built up not only by increased membership, but by the regularity of contributions and the lessening of strike and unemployment drains during the war. At the close of the war they had never been stronger in most of the industrial countries. One case of a particularly strong group of unions may indicate how economic forces beyond sectional control worked havoc. The Welsh coal miners were strongly organised and fought for retention of their standards in terms of the war pledges given by successive Government spokesmen. But a Treasury decision stabilised the pound sterling at a level which entailed a deflation of British prices and export costs. Welsh coal was a major export. Labour cost was a large proportion of the total production cost. To compete on the export market these costs had to be cut by at least ten per cent. The miners resisted the wage cut. The result was not only bitter industrial conflict and unemployment, but a considerable loss of export markets. This had been foretold by Mr. Keynes in a famous

tract.¹ Even the strongest unions fought a losing battle for their standards in face of a technical monetary decision over which they had no control, and indeed of which they had no knowledge until too late.

The sequel, however, is not less significant. In 1929, a Royal Commission, appointed to investigate the health conditions of the miners of South Wales, reported that, although there appeared to be no significant rise in infant mortality or tuberculosis rates, there were disturbing signs of an increase in the prevalence of rickets.

This disease, according to the evidence we could obtain (the Report went on), has until recent years not been common in South Wales and Monmouth. We thought it of importance, for two reasons, to explore with some care the question whether there has been a recent increase. In the first place, apart from the deformity which may result from the disease, it indicates directly a low health standard among children affected and therefore of the rising generation. In the second place, an extended prevalence of the disease may be regarded as a warning of a lowering of the standards of nutrition generally. From the investigations we have made, it is clear to us that in some districts, but not uniformly, there is an increase in the occurrence of rickets. The increase nowhere affects a large proportion of the child population, but the children it affects are children in the early years of life. It is not so much the extent of the prevalence we regard as important as the fact of its occurrence as a fresh development which we think carries the definite significance of a deficiency in the quality, if not the quantity, of the diet of the child population.²

On the positive side also much water has flowed under the bridge. A thoroughly planned Socialist State has been in existence since 1917 and has demonstrated the effectiveness of its organisation, at least in the military sphere. What is perhaps more immediately applicable to the problems confronting the United Nations is the experience of many others among them which have experimented with limited government intervention, especially in the field of employment. Denmark and Sweden, Australia and New Zealand, Belgium and France, as well as the United States, have all had such experience. In some of them Socialist Governments have held office for long periods. In all of

¹ "The orthodox answer is to blame it on the workingman for working too little and getting too much. . . . On the contrary, the explanation can be found for certain in another direction. For we know as a fact that the value of sterling money abroad has been raised by 10 per cent., whilst its purchasing power over British labour is unchanged. This alteration in the external value of sterling money has been the deliberate act of the British Cabinet and the Chancellor of the Exchequer, and the present troubles of our export industries are the inevitable and predictable consequences of it." (J. M. KEYNES: *The Economic Consequences of Sterling Parity*, New York, 1925, pp. 5 *et seq.*); and again, "The plight of the coal miners is the first, but not—unless we are very lucky—the last of the economic consequences of sterling parity" (*ibid.*, p. 23).

² *Report on Investigation in the Coalfield of South Wales and Monmouth*. Cmd. 3272, 1929.

them the central control of monetary policy has been nationalised and in all of them social security legislation has won its way.

It is not surprising to find, therefore, that there is a distinct shift in the objectives of post-war planning, and still more in the methods proposed to achieve those objectives. There is, for example, a notable emphasis in the pronouncements of organised labour upon the necessity of "planning" and much more attack upon "the unplanned competitive world of the inter-war years". There is a considerable body of business opinion which would go a long way in agreeing with the necessity for the maintenance of the wartime economic controls at least over a transitional period. While there will clearly be a sharp divergence of opinion as to the wisdom or possibility of building these controls into "planned production for community use", there may well be substantial agreement between management, labour and government in regard to the necessity of such controls in the immediate post-war period.

There is moreover widespread agreement on the objectives of economic and social policy. The "improved living standards, economic adjustment and social security" referred to in the Atlantic Charter are common aims, and there is a general recognition that "the fullest collaboration between all nations in the economic field" will be essential to this achievement. There is general agreement also as to the desirability of avoiding mass unemployment.

It is clearly desirable that the problems raised by such statements as the Atlantic Charter and the more detailed programmes put forward in different countries should be carefully examined. Agreement on broad objectives does not necessarily entail agreement on methods, yet decisions are already being taken and policies are now being shaped that will go far to determine the framework of institutional organisation within which economic and social policy must proceed for the future. A great deal is being expected, if not demanded, by the peoples and much has in fact been promised, at least by implication, by political leaders of the United Nations. The frustration and disillusion that followed the much more modest promises of the last war are a very recent memory. It would be living in a fool's paradise to encourage hopes of a brave new world without serious effort to analyse the implications of those hopes and to examine the mechanisms necessary for their achievement.

This is all the more necessary since the essence of the whole problem lies not in the statement of formulas or even in the creation of institutional arrangements, but in the actual operation and management of such institutions as may be created. Planning is an attractive word, but much depends upon who does the planning and for what purposes. One of the greatest risks always to

be run in a democratic society is the risk that the machinery of government will fall into the hands of organised and compact vocal groups representing minority interests. The more complicated the machinery and the more ambitious the tasks set for it, the greater becomes the risk. The ordinary citizen finds difficulty in comprehending the long-run and often hidden implications of technical policy decisions, and even in following the workings of the machinery. Democratic planning calls for a distribution of civic responsibilities and a continuous application of social controls that cannot be improvised. Many of the programmes now being advocated call for a considerable extension of public activity and public control over individual economic activity. Who will direct that activity and exercise that control? If such programmes are adopted, how can they be safeguarded against exploitation by privileged and powerful minorities against the public interest?

II. OBJECTIVES OF POST-WAR PLANNING

In the following sections it is assumed that general acceptance has been gained for five major objectives of post-war preparation and planning. These are higher standards of living, full employment, social security, economic development and international economic collaboration. Acceptance of these objectives does not imply acceptance of any particular methods advocated for their achievement. Before the inevitable debate on the desirability of particular methods can be fruitful, however, it is necessary to clarify and define the objectives on which there is broad general agreement.

We live in a world which is rapidly being knit into close neighbourhood by the increasing speed and frequency of communication. News is diffused almost instantaneously and far more adequately than ever before. Individuals can travel rapidly to the most distant parts of the globe, and more and more do so. Goods are not transported so readily; but new methods of transportation are being developed, and in the light of historical experience it seems highly improbable that economic isolation can be maintained once the advantages to be gained by trading become generally known. The commerce of ideas was never more active than it is now, and there are bound to be radical changes in economic organisation, involving closer economic collaboration between the world's peoples. It is against this background that plans for higher living standards, full employment and social security must be considered. Necessarily such plans are national in character. There is no world government through which they can be achieved. National governments must undertake this responsibility. But in doing so they must take account of the international repercussions of their actions and policies.

International economic relations in the past have rested upon the assumption that competitive forces focussed by, and acting through, stable exchange rates would bring about an equilibrium of market prices. As long as the international gold standard worked effectively this assumption was vindicated. As soon as economic forces in any country moved in such a way as to disturb the price equilibrium with other countries, gold moved into or out of the banking reserves. This gold movement was interpreted as a signal

calling for corrective measures to restore equilibrium. As long as the disturbances were not great and there was general acceptance of the necessity for correcting them, exchanges were kept stable and the world market was kept in shifting but effective equilibrium by this means.

This system promoted and in turn was made workable by a great development of international investment and trade. It was responsible for the remarkable growth of economic interdependence in the latter part of the nineteenth century. Its effective functioning, however, demanded flexibility of national price structures and continuous adaptation of costs, including wages, to the fluctuating conditions of the world market.

After the war of 1914-18 the economic disequilibria between national communities proved to be too great, and the resistances to adaptation too strong, for the restored gold standard to be effective. The disequilibria were caused largely by the distortion of international specialisation during the war. They will be much greater at the close of the present war.

The resistances to adaptation grew partly out of changes in the technical methods of industrial production. Instead of competitive small units too numerous and too equal in bargaining power for any group to dominate the market, manufacturing establishments tended to grow in size. There was a strong tendency towards monopoly, monopolistic competition and cartel agreements. The very nature of the new machine methods tended to make overhead costs a more important factor in total costs and therefore to make prices less flexible. The smaller number of large units or the preponderance of their power in the market led to imperfect competition, price leadership or other approximations to a monopolised market. Industrial production tended to become more efficient but less flexible.

In part, however, the lessened flexibility of prices, and therefore the greater resistance to adaptation as international circumstances demanded, grew out of a developing concern with the security of the wage earner. Trade unions became more powerful and were able to insist upon shop practices and stable wage rates. Unemployment insurance and other measures of social security, beneficial as they were in other respects, tended to stiffen these rigidities.

In default of international collaboration to sustain employment, the national governments were presented in the great depression with a choice of preserving external equilibrium at the cost of inflicting harsh adjustments upon their domestic producers, or of resorting to domestic policies designed to sustain employment even at the cost of partial isolation from the world market. Invariably

they chose the latter. This was an inevitable choice since no democratic government could have continued in power which refused to use all its resources to combat the prevalent distress arising from widespread unemployment. Since no effective machinery existed for parallel action, co-ordinated by international agreement, the governments were forced to act independently. The result was a complete collapse of international equilibrium marked by violent price deflation, disordered exchanges, a severe decline of international trade, and wholesale default on foreign investments.

In such circumstances national action is inevitably restrictive rather than expansive, and the experience of restrictive economic nationalism in the decade preceding the present war has proved that independent national action is incapable of solving the economic problems with which the modern world is confronted. It leads to regimentation of employment, production and trade. Politically it is highly dangerous since regimentation offers the best possible opportunity for militarist seizures of power.

Since competitive equilibrium cannot be restored without changing the structure of modern industry and at the same time abandoning much recent progress towards social betterment, and since independent national action has proved to be restrictive and ineffective, there remains only the alternative of attempting parallel national action co-ordinated by international consultation. It is not the purpose of the present study to suggest the institutions through which this consultation should take place, but it is perhaps not out of place to remark that the International Labour Organisation, which is one of the few international agencies already in effective operation, will have a major role to play. This study is an attempt to outline the broad principles on which parallel national action, co-ordinated by international consultation, may be organised. It sets forth an attempt to combine national policies aiming at broad objectives of social policy with international stability and expansion of international trade and investment. Such a combination cannot be effected unless the objectives to be aimed at are clearly defined and agreed upon.

A. FULL EMPLOYMENT

The phrase "full employment" and the economic theories connected with it in the popular mind have gained wide acceptance in recent years. As used by economists the phrase refers not to labour employment alone, but to the employment of all the factors of production. Indeed much of the theory depends upon the argument that savings accumulate in the form of unused balances of

credit beyond the outlets for them in productive investment.¹ Analysis of the working of the individual firm has shown that in the monopolistic conditions of modern industrial societies the combination of the factors of production which is most profitable to those who control investment decisions may well deviate from the technical and social optimum. In order to bring about a higher level of employment and a better combination of the factors of production, it is argued that government intervention may be necessary, to open up new avenues of investment, to redistribute income or to break through price rigidities. Free competition, it is believed, is no longer able to bring this about.

The word employment, however, has come in our industrial age to be associated so closely with the employment of labour that the phrase "full employment" inevitably tends to concentrate attention on jobs as such rather than on the need for ensuring the fullest and most productive use of all the various types of labour and other resources. The subtle and intricate theorising which is postulated upon defined assumptions tends to be crystallised into slogans. What begins as economic analysis of the conditions in which the optimum use can be made of available materials, capital and labour is apt to end up, therefore, as a programme of work creation. It must be borne in mind, however, that in the past positive policies to combat unemployment have been almost exclusively anti-depression measures. Sweden is one of the very few countries which have followed any long-term policy aimed at full employment of resources.

There is no denying the importance of the concept of full employment, even though its meaning tends to be narrowed. All over the world, on fighting fronts and in war factories, men and women, when they think of the future, wonder whether there will be jobs for them when the war ends. They remember what happened after the last war. They recall still more vividly the mass of long-term unemployment just over a decade ago in the great depression of the early 'thirties. It is politically, as well as economically, important, therefore, to plan for the most active possible productivity when the war ends, if only because of the great desirability of keeping labour unemployment within the narrowest possible limits. But this does not mean that at the most effective level of economic organisation there will be no unemployment at all. On the contrary, it is probable that this level cannot be reached if the pro-

¹ "The acuteness and peculiarity of our problem arises . . . out of the possibility that the average rate of interest which will allow a reasonable average level of employment is one so unacceptable to wealth owners that it cannot readily be established merely by manipulating the quantity of money." (J.M. KEYNES: *The General Theory of Employment, Interest, and Money* (London and New York, 1936), pp. 308-9.)

vision of jobs, instead of being regarded as one of several prime objectives, becomes the sole criterion of organisation. This probability will become a certainty if work provision takes the form of freezing existing jobs so that mobility is restricted and new avenues of expanding employment are thereby hampered in their development. There is some need to emphasise the fact that employment is not an end in itself, except as it satisfies the worker's need to feel himself an effective and useful member of the community but is a means to the production of goods and services. The fact that employment has come to be regarded as a social objective and unemployment is felt to be a major social evil is indicative of the precarious instability of our economic system.

There is more employment of labour, and indeed of all the factors of production, at the present moment than there has been since the last war. It is easy to conclude that the only purpose into which our nationally-organised world is willing to throw all its energy and resources is that of destruction. As war proceeds, shortages and bottlenecks begin to occur. Among them, shortages of manpower are the most serious and in the long run are probably decisive for victory or defeat.

The United States, which was the last of the great powers to be involved in direct hostilities, had reduced its unemployment in the period of pre-belligerency from 9.3 million in July 1940 to 3.8 million in December 1941. By September 1943 the figure had fallen to 0.8 million.¹ In other countries the drain on manpower is even more pronounced. By the beginning of 1943 the manpower shortage in Germany had become so acute that an estimated 6.5 million foreign workers had been transferred from occupied Europe to feed the German war machine.² The potential supply of slave labour has recently been increased by conscription decrees in France, Czechoslovakia and Greece. Full employment of labour has been achieved in these and other warring countries. In fact it is perhaps the major tragedy of our generation that only in war or in the preparation for war has it been achieved or even approached.

The experience of wartime full employment, however, only emphasises the major obstacle to the achievement of a high level of employment after the end of hostilities. That difficulty is not so much one of technique as of agreement on purpose. The purpose of a war economy is agreed upon by all social groups and classes;

¹ U.S. DEPT. OF COMMERCE, BUREAU OF FOREIGN AND DOMESTIC COMMERCE: *Survey of Current Business*, Nov. 1943, p. S-8.

² INTERNATIONAL LABOUR OFFICE: *The Displacement of Population in Europe*, by Eugene M. KULISCHER, Studies and Reports, Series O (Migration) No. 8 (Montreal, 1943), p. 160.

the aims of a peace economy are not so agreed. And unless a rather wide area of agreement on social purposes between social groups and classes can be achieved the quest for full employment at the close of the war will be vain.

One more preliminary observation may be made at this point. Examination of unemployment statistics in industrial countries reveals that by far the highest unemployment rates are to be found among unskilled manual workers. The percentage of unemployed falls steadily as we pass from the unskilled workers through the various social groups of the occupied population to owners, managers and to the professions.¹ The problem of mass unemployment is to a very great extent a problem of the wage-earning group, and particularly of unskilled labour. Differences in census classifications render international occupational comparisons hazardous, but there is no doubt that in most countries wage earners make up well over half the occupied population.²

Almost 60 per cent. of the occupied population in the United States in 1930 and over 70 per cent. in England and Wales in 1931 were numbered in what might be termed the working-class group. About 30 per cent. in both countries were unskilled labourers. Wage earners, about half of whom are unskilled, are numerically the most important single group in the total population of a modern industrial State.³ They constitute the lowest income groups of the population, least able to withstand any loss of income, and most affected by fluctuations in the level of economic activity and employment.

¹ Cf. COLIN CLARK: *The Conditions of Economic Progress* (London, 1940), pp. 230 ff.

² In recent years the relative numbers of the professional and lower salaried groups in industrial countries have increased rapidly while those of farmers and farm workers have declined so that the proportion of wage earners has remained rather stable and, in the United States, has even tended to fall. Cf. COLIN CLARK, *op. cit.*, p. 208.

³ Cf. INTERNATIONAL LABOUR OFFICE: *Year Book of Labour Statistics*, 1942 (Montreal, 1943), "Structure of the Gainfully Occupied Population", pp. 6-18. Thanks to the industry of Mr. Clark comparable figures are available for the United States and England and Wales and these are reproduced in part below:

PERCENTAGE DISTRIBUTION OF SOCIO-ECONOMIC GROUPS IN THE OCCUPIED POPULATION OF THE UNITED STATES (1930) AND ENGLAND AND WALES (1931)

	U.S.A. (1930)	England and Wales (1931)
(a) Professional	6.0	4.4
(b) Owners, managers and officials	19.8	10.3
(c) Clerks and kindred workers	16.3	13.9
(d) Skilled workers	12.9	16.4
(e) Semi-skilled workers	16.3	22.4
(f) Unskilled	28.7	32.7
	100.0	100.1
Workers: (d) and (e) and (f)	57.9	71.5

The concentration of the problem of unemployment upon this substantial community group, of mainly unskilled industrial wage earners, is a modern phenomenon, the outgrowth of the factory system. Idleness and slack time are and have always been characteristic of all social groups in depression and are by no means confined to highly industrialised nations. But in a highly industrialised community the wage earners are divorced from any means of subsistence except what they can buy with the wages of their labour. They are, moreover, organised and politically vocal. Other community groups—farmers, professional men, small enterprisers and craftsmen—suffer from lower prices and less demand, but they usually have a wider margin between them and starvation. They have as great a stake, however, in the organising of a productive and stable economy as have wage earners. Their demands and their share of production are important also in the total economic effort. It is therefore *prima facie* unlikely that full employment, even of 60 per cent. of the working community, can be the sole test of efficient organisation. Efficient utilisation of productive resources, including human energy, must be the test of policy.

When the causes of industrial unemployment are examined this becomes clearer still. Economic analysis usually classifies these causes with respect to time and to function, though these classifications necessarily overlap. Short-period unemployment may arise from frictional or seasonal causes. Long-period unemployment is usually due to a profound change in the structure of industry or to a deep economic depression. It is obvious enough that these analytical categories cannot be sharply defined in real life; but they are helpful in gaining an understanding of the complexity of the problem. Examples may perhaps suffice by way of definition. The employment lost in changing from one job to another is frictional; the building industry is subject to severe seasonal fluctuations of employment largely because of weather conditions; structural unemployment occurs mainly because of technical changes which cause shifts in the location of industries; cyclical unemployment is usually common to most industries and most countries and is the result of a breakdown in price relationships impeding the exchange of goods and services.

It will be obvious that each of these types of unemployment not only shades into the others; but each cause is influenced by the existence of the others. Thus in a great depression when unemployment is general, all the other types of unemployment are accentuated. Indeed the structural changes in industry usually come to a head in a series of violent paroxysms or cyclical depressions. In the same way frictional unemployment becomes worse when effective

demand is low. On the other hand any substantial cause of immobility in the factors of production, and especially labour, is apt to worsen both structural and cyclical unemployment. It should also be noted that a specially difficult problem confronts most agricultural countries since not only farming but the industries built upon it are subject to seasonal pressure.

In attempting to define "full employment" as an objective in post-war planning, and in doing so to take account of the necessity for securing the fullest possible employment of all the factors of production, and of all classes of the community, it is clear that certain kinds of unemployment are probably inevitable and perfectly compatible with the broad objective of maximum productivity from the optimum use of the factors of production. There must be increased "frictional" unemployment in the demobilisation and reconversion period. Seasonal unemployment will persist. These can, and should, be taken care of by other means, notably by improved social security legislation.

What is incompatible with the objective of full employment defined in realistic and practical terms, is that the readjustment of international specialisation, and all the structural readjustments involved in reconverting from war to peace production, shall be allowed to cause widespread and prolonged unemployment in a series of destructive depressions which add to the inevitable frictional displacements of labour a large amount of general cyclical unemployment.

In the immediate post-war period, therefore, the attainment of "full employment" implies a positive programme of reconversion involving tremendous changes in production equipment within national communities and considerable shifts also in the international exchanges between those communities. Such a programme cannot eliminate seasonal unemployment. It may even aggravate frictional unemployment for a time as industry is retooled, international trade reorganised and labour transferred to new employment opportunities. Such a programme indeed is incompatible with the freezing of present employment. In endeavouring to avoid prolonged structural and cyclical unemployment, it must strive for increased mobility of labour.

A positive programme of conversion from war to peace production, concerted on an international scale, must necessarily attempt to mitigate, and as far as possible eliminate, the fluctuations of employment that are characteristic of cyclical swings in economic activity. The cumulative deflation which always accompanies cyclical depressions has in the past greatly increased the unemployment and other human costs involved in structural reorganisa-

tion. The latest example of this exaggeration of unemployment may be recalled briefly. Even in 1929, at the height of the boom, there were a million unemployed in Britain, two million in Germany and nearly three million in the United States.¹ The total unemployed in those countries for which statistics are available was about ten million. Part of this was the so-called "hard core" of persistent long-term unemployment. Unless this "hard core", which persists even in boom periods, is to be accepted as an unpleasant permanent feature of the modern capitalist economy, it must be regarded as largely a legacy of structural maladjustments never remedied in the period between the wars.

It should be emphasised, however, that the ten million out of work in 1929 had become thirty million at the depth of the depression in 1932. It is this vast increase in unemployment as a result of the spiral of cyclical deflation that represents the most dangerous risk to be confronted in the adjustments that must necessarily follow the distortion of production in a great war.

A post-war programme seeking to maintain a high level of economic activity should be so designed as to guard against this risk. If complete mobility could be assumed, full employment would be reached in all industries at the same time. Actual scarcity of labour would then arise, there would no longer be any downward pressure on money wages, and employers, as well as employees, would add to the pressure for higher wages. If some check did not operate on this pressure an inflationary spiral would start. At this point, however, the stock of money available for investment would decline, thus causing a rise in interest rates which would operate to check further investment and thus to reduce the demand for labour and relieve the pressure for higher wages.

In the real world, where very considerable immobility of factors prevails, "full employment" is not reached in all industries at the same time. "Bottlenecks" appear in some industries, and some money wages (and prices) tend to rise rapidly (and cumulatively), before "full employment" is reached in the economy as a whole.² The critical point beyond which an increase in the demand for labour leads not to an increase in employment or real wages but to instability and inflation, is thus reached sooner in the real world than it would be in a state of perfect mobility. In pursuing the objective of full employment the authorities responsible for economic policy must therefore allow for the imperfect mobility of human

¹ In 1937 at the peak of the recovery from the great depression there were from one and a quarter to one and a half million wholly unemployed in Great Britain and about seven million in the United States.

² Cf. Joan ROBINSON: *Essays in the Theory of Employment* (New York, 1937), "The Mobility of Labour", pp. 40-60.

beings and other factors of production and must aim, not at the point which would constitute the optimum in a world of perfect competition, but at the highest level of employment which is compatible with reasonable stability.

B. SOCIAL SECURITY

The argument of the preceding section is based upon the assumption that the displacement of labour may be considerable in the process of reconversion from war to peace production. In aiming at the most efficient utilisation of labour and natural resources, so as to achieve a stable and enduring prosperity, an effort must be made to achieve the maximum degree of labour mobility. To seek "full employment" by protecting workers in their wartime jobs would be to invite certain defeat of the ultimate objective. There may well be great political pressure to prevent workers from being thrown out of employment by shifts in production or trade, particularly international trade, which are essential to the achievement of a new equilibrium. Such pressure will be increased by reluctance to scrap capital equipment and to destroy property values that are likely to prove redundant if exposed to competitive production.

Most of the restrictive government intervention of the inter-war years was, in fact though not in name, a protection of vested interests that had become unable to meet the tests of competitive efficiency, rather than a protection of employment. A clear line needs to be drawn between human rights and property rights. There is a good case, on grounds of efficiency, for exposing property rights to the acid test of competition. There is an equally good case, also on grounds of efficiency, for protecting the individual human being from the consequences of economic misfortune beyond his control. This is the case for social security. It is economically profitable for a community to safeguard its members against the harsh consequences that result from the death of a breadwinner, industrial accidents, old age, or prolonged unemployment. This is particularly true in a period of rapid economic change and adjustment such as is likely to come at the close of a great war.

The idea of social security is by no means new. Extensive schemes of social insurance have long existed in many countries. They have not always been prompted by the same motives. Fear of revolution and anarchy led William Pitt in 1796 to propose a system of compulsory national insurance¹; the threat of a militant

¹ Cited by John Chamberlain in the *New York Times*, 31 Dec. 1942, p. 13. "In 1796, when England was digging in for two decades of warfare against Napoleon, Prime Minister William Pitt advocated a system of compulsory national insurance, family allowances for children and free technical education. 'With reform', so Mr. Pitt declared, 'you disarm the Jacobins of their most dangerous weapons'."

labour movement played an important part in prompting Bismarck in 1871 to inaugurate the first plan for social insurance in Europe. But such motives, many of which still operate, are not the driving force behind the contemporary movement to secure for each individual in the community an assured minimum of material subsistence. The power behind this movement is the popular will to assure minimum subsistence as a right of citizenship.

Recent manifestations of this will have appeared in various countries and several government reports have been published.¹ Naturally these differ both in scope and in methods but the main trend of development is similar in all countries. The character and direction of this trend can perhaps best be seen from a brief summary of recent events in Great Britain.

In wartime Britain, with imports of food and materials cut to the bone and limited to those goods essential for the prosecution of the war, and with production of civilian supplies drastically restricted, the idea of a "National Minimum" of food, clothing and shelter for each individual citizen was readily accepted. In a war of machines the production army has grown vastly in importance, far outstripping the numbers of military personnel. At the same time the bombing plane has extended the front lines of battle into the very homes of the civilians who produce the engines of war. Keeping this great civilian army fit for efficient war service was, and is, a primary military necessity. As the war dragged on from year to year, and as participation in the common effort and in the common sacrifice drew the community closer together, the idea of making this "National Minimum" a permanent and integral part of the British social system caught and held the popular imagination.²

In June 1941 an Inter-Departmental Committee on Social Insurance and Allied Services was set up under the chairmanship of Sir William Beveridge, to survey "existing national schemes of

¹ Cf. *Report on Social Security for Canada*, prepared by Dr. Leonard C. MARSH for the Advisory Committee on Reconstruction, and presented to the House of Commons Special Committee on Social Security, 16 March 1943. For Great Britain cf. *Social Insurance and Allied Services*, Report by Sir William BEVERIDGE, Cmd. 6404, 6405 (London H.M. Stationery Office, 1942; American edition: New York, Macmillan Company, 1942). In the United States, cf. NATIONAL RESOURCES PLANNING BOARD: *Security, Work, and Relief Policies* (Washington, U.S. Government Printing Office, 1942). For a review of the evolution of the idea of social security, see INTERNATIONAL LABOUR OFFICE: *Approaches to Social Security: An International Survey* (Montreal, 1942). Note the resolution—reproduced as an appendix—of the Second Labour Conference of American States Members of the International Labour Organisation on the aims and functions of social insurance.

² For extended discussion of the idea, cf., for example, the columns of the *Economist* and an article by its editor, Geoffrey CROWTHER: "Where Do We Go from Here?", in *Fortune*, Oct. 1941.

social insurance and allied services, including workmen's compensation, and to make recommendations". Since all the members of the Committee, except Sir William, were civil servants, responsibility for making recommendations was left to him alone. The results of this investigation were published in November 1942.

Extensive social studies of various industrial areas in the British Isles were used in the preparation of the report. These showed that in from 75 to 82 per cent. of the cases examined in different areas, want was a consequence of loss or interruption of earning power. In the remaining cases it was found to be due to failure to relate earning power to the size of the family. The report therefore concludes that abolition of want calls both for a comprehensive system of social insurance and for some redistribution of income to meet family needs. Social security is accordingly defined in the following terms: "the securing of an income to take the place of earnings when they are interrupted by unemployment, sickness or accident, to provide for retirement through age, to provide against loss of support by the death of another person and to meet exceptional expenditures, such as those connected with birth, death and marriage. Primarily social security means security of income up to a minimum, but the provision of an income should be associated with treatment designed to bring the interruption of earnings to an end as soon as possible."¹ In this definition, it may be noted, the concept of social security includes family allowances and health² and rehabilitation services as well as provision for the aged and for the very young.

The particular plan which Sir William Beveridge has suggested is based upon existing social security legislation and upon the survey of actual needs in Britain. Neither the forms of administration nor the suggested amounts of contributions and payments are necessarily applicable to other countries. No analysis of either is attempted here since what is under consideration at this point is the definition of social security rather than the means of assuring it in specific areas. There are, however, three respects in which the Beveridge proposals draw attention to important aspects of social security which cannot be omitted in any realistic definition.

The first of these is to be found in the emphasis placed throughout the report upon the necessity for some redistribution of real

¹ Sir William BEVERIDGE, *op. cit.*, p. 120.

² It has been estimated that in the United States on the basis of a peacetime labour force, about 400,000,000 mandays are lost annually from disabilities of all types, at an economic cost of \$10 billion. In 1940 this loss of working time was fifty times greater than the time lost as a result of strikes and lockouts. NATIONAL RESOURCES PLANNING BOARD: *National Resources Development*, 1943, Part I, p. 60.

income. The proposals do not consist merely in measures of insurance designed to guarantee to each industrial worker a minimum standard of subsistence such as he might obtain if he were employed without interruption. They include payments such, for example, as family allowances, the provision of school meals, widows' and orphans' and old-age pensions, which constitute definite transfers of real income from the taxpayers to the recipients. Such payments are a logical extension of educational, health and other services provided freely to the public and paid for out of general taxation. Moreover the various insurance schemes themselves are generally subsidised by the State out of general taxation, and part of the contributions is paid by the employers, so that as a rule less than half the cost is borne by the worker directly. Social insurance is therefore not merely a spreading of risks based on actuarial calculations; it is also a means of redistributing real income.

Following the pattern of the pioneer social security legislation enacted in New Zealand in 1938, the Beveridge plan definitely accepts the necessity for guaranteeing a minimum standard of subsistence to every member of the community, a necessity which involves a larger measure of income redistribution than has hitherto been practised in Great Britain. If this necessity is finally accepted, voluntary thrift will become a means whereby individuals may hope to rise above, rather than reach, their minimum standards of subsistence.

The second respect in which the Beveridge proposals draw attention to an essential element in social security is to be found in the repeated insistence upon their correlation with measures to avoid mass unemployment. The calculations upon which proposed contributions and benefits are based do, indeed, assume an average volume of unemployment ($8\frac{1}{2}$ per cent.) which may seem at first glance to be inconsistent with the objective of "full employment". In the probable circumstances of Britain in the immediate post-war period, however, this does not seem to be an unduly pessimistic assumption. The fact that such an assumption must be made emphasises the importance of the considerations set forth in the preceding section of this study.

Nevertheless, Sir William Beveridge also assumes, and his whole report is based upon the assumption, that positive policies will be adopted aiming at "not indeed, absolute certainty of work, but a reasonable chance of productive employment". The report makes specific reference in this connection to "an announced determination to use the powers of the State to whatever extent may prove necessary". This reference may well be interpreted as meaning the provision of employment by direct State action in the form

of public works; but it is vague enough to be interpreted merely as action to ensure that employment shall be available.¹

Whatever may turn out to be the best methods of ensuring maximum employment, there is no doubt of the essential dependence of any scheme of social security upon the productive efficiency of the national economy as a whole. Prolonged mass unemployment will wreck the actuarial soundness of contributory insurance schemes and involve relief expenditures on such a scale as either to endanger the continuance of the social services or to force drastic changes in the whole economic system. It is as a supplement to, rather than a substitute for, active employment that social security must be envisaged. By and large private employment is not only more likely to be productive than relief works, it also yields revenue to the State instead of increasing the public debt. Indeed it seems obvious that the greater the degree to which employment can be provided by taxable enterprise, and the less resort there must be to relief works, the more chance there will be of establishing social security schemes upon a workable and continuing basis.

The third point raised by the practical proposals of the Beveridge report concerns the effect of guaranteed social security upon the incentives to productive activity as a means of assuring personal independence. Sir William Beveridge is clearly conscious of this issue. "The plan", he writes, "is not one for giving to everybody something for nothing and without trouble, or something that will free the recipients forever thereafter from personal responsibilities. The plan is one to secure income for subsistence on condition of service and contribution and in order to make and keep men fit for service."² As he writes in another part of his report: "The State in organising security, should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family."³

It is perhaps inevitable that any proposal for social security should evoke fears of demoralisation associated with the spectral memory of the Poor Laws. There are those in the United States, also, who point out that long-continued relief was not followed

¹ "Income security which is all that can be given by social insurance is so inadequate a provision for human happiness that to put it forward by itself as a sole or principal measure of reconstruction hardly seems worth doing. It should be accompanied by an announced determination to use the powers of the State to whatever extent may prove necessary to ensure for all, not indeed absolute certainty of work, but a reasonable chance of productive employment." Sir William BEVERIDGE: *op. cit.*, p. 163.

² *Ibid.*, p. 170.

³ *Ibid.*, pp. 6-7.

after the great depression by a revival of individual initiative on the part of some recipients of relief. It may perhaps be argued that this sapping of initiative and self-reliance is traceable to individual frailty or to the demoralisation resulting from months if not years of hopeless pessimism and unemployment, rather than to the provision of a meagre subsistence.

Wherever the truth may lie in particular cases, it is obvious that social security schemes must endeavour to reinforce rather than sap initiative. For this reason retraining and rehabilitation, increasing both efficiency and mobility, must form part of any effective programme. In the long run social security can be effectively achieved only if the guaranteed minimum is less attractive than the level of living offered by active employment. Security is not to be achieved by stagnation.

In the post-war world there must be anticipated not only great readjustments to the changed patterns of international specialisation, but the possibility of revolutionary new methods of production. Scientific research is only at the threshold of its industrial applications. Instability of employment may be increased for a time, so that there will be greater need for tiding individuals over transitional difficulties and at the same time assisting them to find new avenues of useful service to the community.

But it would be folly in such circumstances, and harmful to the interests of those who are protected, if the measures taken to protect them from passing hardship should prevent or even hinder them from taking full advantage of the opportunities of new employment that might be provided by the quickest and most complete utilisation of the changed techniques made possible by scientific discoveries.

C. ECONOMIC DEVELOPMENT

The economic relations between industrially developed countries and those whose economic equipment has not kept pace with modern scientific achievements have been changing rapidly in recent years. Politically there has been a marked growth of national sentiment both in colonial areas and in those where economic penetration had resulted in limiting national independence. New and vigorous life is stirring in national communities that had seemed apathetic. Colonies have claimed autonomy; States have thrown off unequal treaty obligations.

On the economic side there has been equal vigour. Most of the dependent or semi-dependent countries have been both poor and inefficiently organised, though many of them have potential resour-

ces capable of development. Even where national independence has been unquestioned, economic enterprise has often been lacking.

The fact is too often forgotten that the foreign investment, trading enterprises and migrations that created the nineteenth century trading system were dominantly directed from northern and western Europe. The industrial applications of new scientific discoveries, and notably the use of new sources of mechanical energy in production and transport, gave the pioneers of their development overwhelming advantages in economic activity and in military and naval strength. Britain led in this industrial revolution and in the revolutions of commercial and banking practice which accompanied it; but other countries in the north and west of Europe followed close behind. One result was a rapid increase of population which in turn led to vast migrations that occupied the thinly populated grasslands of the temperate zone. In these new settlements population grew even faster than in the countries of emigration. In them, too, mechanical methods of production and transport were pushed to more effective development.

Where old-established populations were too numerous or tenacious to be pushed aside, or where conditions were not favourable to large-scale settlement, economic penetration took place. In some instances, as in India, this led to the establishment of colonial government. In other cases, as in China, lodgments of trading enterprise and investment were effected which often secured exceptional privileges from weak national governments. In still others, as in many Latin American countries, foreign traders and investors established economic dominance and political influence.

Whatever the political arrangements, economic development was determined mainly by investment decisions taken in the dominant industrial countries and primarily for the promotion of their trading interests. This fact is graphically illustrated by the location of the trading towns on the sea coasts of the less developed countries and by the transport systems connecting those towns with the resources of the interior. The network of world trade that was woven in the nineteenth century was centred upon northern and western Europe.

In the years between the wars, however, the economic dominance of this region proved to have been seriously weakened. There was no longer available a stream of capital investment and a parallel stream of migration outward to the regions of undeveloped natural resources. Population increase had slowed up and the pools of potential emigration were smaller. The old centres of industrial energy seemed to have exhausted, at least temporarily, the impulses that had promoted their great expansion. Continuous

supplies of new savings were no longer being added to the capital fund. Indeed ownership of much former investment had passed from European and particularly from British hands in the war of 1914. The wastage of capital resources that resulted not so much from the actual destruction of the war as from the economic demoralisation that followed, drew much new capital into reconstruction of formerly developed areas. The accumulation of new savings diminished as income was redistributed to meet the new levels of living demanded after the war.

On the other hand, in many hitherto backward areas, the war period had witnessed an acceleration of industrial development together with a growth of nationalism. The former interchange of raw materials and foodstuffs against manufactured goods and capital equipment which was an important part, but by no means the larger part, of pre-war international trade was difficult to restore.¹ The network of world trade was not easy to reweave.

When the first effort to restore the pre-war international economic system broke down in the great depression of 1929-32, there was actually a marked involution. The currents of migration were reversed. Labourers returned from the British Dominions to Britain, from Indonesia to China, from South America to continental Europe. There was a similar reversal of capital movements from debtor to creditor countries.

In all these changes the situation of Britain was crucial. London had not only been a collecting and distributing centre for the world's capital resources, but had become the clearing and regulating centre for the whole world system of trade and investment. Britain's resources were seriously strained by the war of 1914-18 and the functioning of her monetary system was further handicapped by the stabilisation of sterling in 1925 at the pre-war parity. From that time until the attempt to sustain this parity was abandoned in the autumn of 1931, the British balance of payments was almost continuously strained, British exports were hampered by the necessity of getting costs down to a competitive level on world markets and large numbers of British workers were victims of unemployment. There is some reason to believe that an adverse balance of payments was covered by failure to replenish past capital investments and even by some withdrawal of them. The suspension of specie payments in Britain in September 1931 marked the collapse of the restored gold standard.

It should be said that if little new economic development had been possible in these years, much had been accomplished parti-

¹ Cf. Albert O. HIRSCHMAN: "The Commodity Structure of World Trade", in *Quarterly Journal of Economics*, Vol. LVII, pp. 565-595.

cularly in regard to European reconstruction. The collapse of the gold standard mechanism, it is true, brought much of that reconstruction down with it; but the causes of the breakdown lie deeper than a failure of monetary mechanisms. It is significant that the first symptoms of the great depression appeared in the raw-material producing debtor countries, particularly in those outside Europe, whose economic prosperity depended largely upon world markets. Australia was in difficulties with its balance of payments as early as the autumn of 1928.

The fundamental fact is that expanding trade and economic development promoted by capital investment are intimately connected. The process by which new areas of production were opened up in the nineteenth century depended essentially upon the readiness and capacity of the investing countries to absorb the new production by expanding their imports. Such countries as Australia had equipped themselves to the point where the capital already invested imposed overhead costs that were economical only on the assumption that production and exports could be further expanded. New Zealand, with the highest per capita foreign debt in the world, proceeded actively with such expansion: it doubled its already large butter exports in the decade from 1920 to 1930 and still had not reached the peak of its potential production. In a world of restricted trade and increasing self-sufficiency, continued expansion of exports might no longer be possible. Past investment consequently was jeopardised and new investment became impossible. New Zealand, indeed, reduced its foreign indebtedness every year between 1935 and 1939. Many other debtor countries did the same, though new loans have been made, for example, in Latin America, particularly since the war, and mainly by the United States.

It seems evident that the mechanisms of international investment which were centred upon London in the nineteenth century must now be replaced. These mechanisms produced great results, though often at heavy cost. The full story of their ventures has not yet been written; but such incomplete surveys as have been made indicate not only considerable fluctuations in the process of investment, but heavy periodic liquidation of misdirected ventures. Both were the inevitable counterpart of the reliance upon competitive enterprise. The great merit of the system was the willingness it engendered to take risks, even if those risks were sometimes ill-considered or even fraudulent. Venture capital was the spearhead of economic development. In the aggregate result, it transformed the economic world, creating productive new communities in the countries of European settlement, and introducing the new tech-

niques of mechanical industry to backward economic areas. In its persistent search for gold, for oil, for minerals, and for less spectacular materials, it opened up new productive possibilities even while it disturbed social organisation in the countries it penetrated. The great expansion of numbers and the equally marked rise of living levels in northern and western Europe, and their offshoots overseas, were directly caused by it.

In the world after the present war, however, a new element will enter into the consideration of economic development. The productivity of new investments was estimated in the nineteenth century by investment bankers. It was their judgments and decisions which determined the financing of new ventures. Though by no means infallible, their judgment proved on the whole to be good as judged by the tests of economic productivity and profitability. But the productivity was for the world market and profitability was judged partly by immediate financial returns in the process of flotation and partly by profitable sales mainly for export.

The new element that has entered into the situation is the insistence of the borrowing countries that national and social objectives must enter into the planning of new industries within their borders. They are no longer content to accept the judgment of cosmopolitan financiers as to the desirability of new enterprises; but insist upon exercising a large measure of national control over these developments. In part this control is exercised for strategic and political reasons, but in part also it springs from a determination to secure the social advantages of industrial developments. The borrowing countries are no longer content with the indirect economic and social advantages that have accrued to them from the operations of foreign capital directed mainly to the export market. These advantages have in many cases been substantial; but the borrowing countries now manifest concern over the conservation of their national resources. They are concerned also to develop transport, to improve agriculture and consumption goods industries for their own domestic markets as a means of improving their levels of living. Moreover they are conscious of the educational effects of industrial development and desire to train their own technicians including not only managers and scientific experts but foremen and skilled workers, both as a reservoir of leadership and as a direct means of improving living standards.

An important step in the recognition of these social objectives has recently been taken by the United States Government. Believing "that men and women who work under decent conditions produce more per person than those who work under less desirable conditions; that work stoppages and labour shortages are less likely

under better working conditions and loss of man-hours from accident or occupational disease is reduced by a programme of safety and sanitation"¹, it now includes in all contracts for the procurement of strategic materials from other countries a clause designed to maximise production by the maintenance of certain minimum standards of working conditions. In the words of the Board of Economic Warfare, "It is the first time in history that one nation, in negotiating for the products of another, has given an express guarantee against the exploitation of labour; has realistically and frankly recognised that labouring men and women who receive a fair wage, work reasonable hours and work and live under decent conditions of health and sanitation, actually produce more and better products than those who do not. The labour clause policy, in short, applies a sound business principle to assure the greatest possible manpower efficiency in the procurement of materials needed for the war programme of the United States."² This clause, which does not seek to impose the labour standards of the United States upon other countries, but merely to maintain local standards, is in fact an international "fair wages clause".

The need for development capital is increased rather than lessened by the desire of the less industrial countries to improve their economic processes. But the mechanisms by which such capital may be transferred from creditor to debtor countries must be established on new bases. It does not necessarily follow that the mechanisms must be intergovernmental rather than private. In recent years, and notably since the "great depression", a large part of the rather small volume of international investment that has taken place has been negotiated between governments or their subsidiary agencies. This type of foreign lending, however, has certain undesirable features. In particular it injects a political or diplomatic element into economic transactions.

There is great need for an international investment authority which would deal chiefly with loans for reconstruction and development, somewhat as the League of Nations administered the Reconstruction Loans to Austria and Hungary after the last war. Private transactions, especially in the form of direct investment by great corporations, may indeed be important for industrial development; but for the provision of basic transport services, for flood control, irrigation and similar public works, the capital may in some cases best be provided by governments through the medium of an international investment authority.³

¹ INTERNATIONAL LABOUR OFFICE: *Labour Conditions in War Contracts*, 2nd ed. (Montreal, 1943), p. 55. Quoted from a statement supplied by the Board of Economic Warfare.

² *Ibid.*, p. 57.

³ See below, pp. 117-125.

Such a mechanism is also required if foreign investment and development programmes are to be effectively co-ordinated. It is commonly agreed that one of the major causes of the breakdown of reconstruction lending after the last war was that such lending put impossible burdens on the international balances of payments of the borrowing countries. The loans were often too great in the aggregate, many of them were ill-considered, and too little account was taken of the possibilities of payment. Free investment is necessarily correlated with free trade, but trade was progressively restricted by the creditor countries. Economic development in the future should be correlated with trade policy so that balances of payments are not strained to the point where the debtor countries must either default or impose exchange control or depreciate their currencies. The usual result in the recent past has been that, lacking adequate trade outlets, the debtor countries depreciated, defaulted and imposed exchange control.

It is in this field of international investment, where enterprise has in fact been the determining factor in planning new production, that the clearest case can be made for overall planning. Investment is the growing point of any economic system. Decisions in regard to it determine the possibilities of future production, employment and trade. It will be argued in the next section that overall planning is not practicable for the world as a whole. What is possible, and in the field of foreign investment very necessary, is some mechanism at least for registering and as far as possible for regulating capital movements across national frontiers.

D. INTERNATIONAL COLLABORATION

It has been argued above that the rapid development of communications and the increasing ease with which knowledge is diffused in the modern world has rendered inevitable much closer contacts between the world's peoples. Isolation is now impracticable. It is not possible to quarantine ideas. Nor is it possible to prevent the effects of population and production changes in one part of the world from influencing economic activity in other areas. Even if an effort is made to regulate actual trading contacts, the very fact of such regulation affects economic activity in the regulating country. Imports may be shut out in an effort to preserve domestic production from being affected by foreign competition; but the inevitable result is to destroy the exports which pay for the imports and thus to shift the adverse effects to another, and presumably more efficient, sector of the national economy. The

interdependence of industrial production resulting from the necessity to utilise raw materials drawn from widely scattered sources is sufficient to make the world one economic neighbourhood. This interdependence is on the whole increased, rather than lessened, by scientific invention and research. New synthetic products may displace imported raw materials, and substitutes may be found for imported manufactures; but the same process of scientific research calls for increasing use of materials in which no country is self-sufficient. Moreover the most striking advances are in the field of transport and communication and these inevitably bring new trading possibilities within profitable reach.

It is not necessary, however, to jump to the conclusion that because of this increasing degree of interdependence the world must be organised as a single economic unit. The economic activity of the more than two thousand million people in the world is infinitely varied, while their political loyalties, from which even the best constitutions must draw vitality, remain obstinately national. There is at the present stage of political and economic evolution little reality in the somewhat vague proposals sometimes advanced for unitary or federal world organisation. These proposals are necessarily vague even when constitutional arrangements are sketched in seemingly practical detail. There is no way in which the actual processes of democratic election and executive policy-making can be charted. The test of a constitution lies in its actual working. Without established loyalties and traditional procedures such constitutions are apt to become a façade. The real problem of organisation is the location of power, and power is always exercised by those who can command a following in support of their policies.

The time may come when it will be possible to erect such institutions and ensure their effectiveness by building loyalties of world citizenship. Perhaps the best way to build up such loyalties is by the creation, in specific fields of common interest, of institutions with defined powers and responsibilities. The efficient working of such institutions may come to command the loyalties of individuals in ways consistent with their national allegiances, as some of the great religions now do. It is possible to be a loyal citizen at the same time of a town, a State, and a nation, even of an association of nations like the British Commonwealth, provided that there is a reasonable definition of the duties owed at each stage of citizenship. It is also possible to be a loyal adherent of a church transcending national boundaries provided there is clear demarcation between the things which are Caesar's and the things which are God's.

However this may be, it does not need much reflection to grasp the fact that in the immediate post-war years the only organised machinery of government capable of administering social programmes aimed at full employment and social security will be that of already established nation-states. Administrative machinery of this kind cannot be improvised overnight. The slow growth of the social services in such a country as Britain illustrates this fact very well. The Beveridge report could not have been written if there had not been a long process of social legislation, establishing a series of administrative services staffed by trained specialists who have gradually accumulated a wealth of practical experience in their respective fields. Much of the Beveridge report in fact consists of a survey of the various social services and recommendations for their administrative integration and improvement. The number, variety, and specialised nature of these services in a single country is sufficient evidence of the impossibility of creating international services for direct administration, even if all the countries were on approximately the same level of need and development.

The extraordinary diversity of social development in the world today emphasises the necessity, from the purely administrative viewpoint, of national organisation. Indeed those most familiar with the administration of the social services in the United States have been quick to point out that the administration proposed in the Beveridge report would need to be considerably modified before it could be applied to the federal structure of the United States. This is not only because of States' rights, but because of great differences in the social conditions of different sections of the country. If this is true in a federal State, it is obviously much truer for the world as a whole. New Zealand or Denmark presents quite different questions from those which must be faced in such countries as India or China. Britain will be in a better position to handle its social services than Germany will be at the close of the war.

There is no need to labour this obvious point. As soon as any attempt is made to grapple with the realistic application of such policies as those postulated as the objectives of post-war action, it is clear that centralised administration is impossible.

This conclusion accords not only with expediency, but with the sound political principle that government should so far as possible be confined to essential principles rather than detailed administration and should be decentralised to the greatest degree compatible with efficiency. The true safeguard of individual liberties is vigilant local government. The closer government is to the governed, the less chance there is of power passing into the hands of privileged groups. It is an axiom of democracy that government should

function at the lowest possible level of regional organisation. The larger the area covered the less government should be attempted.

Effective international collaboration therefore postulates a minimum of functional responsibilities at the centre in order that the people shall retain the greatest possible control over those whose decisions affect their daily lives. Social security is necessarily administered as a national service. The organisation of employment must also be national. In the same way proposals for economic development must be conceived and executed by national governments.

Such national policies, however, if they are to be effective, must be co-ordinated by international consultation and agreement. Pursued independently, they are likely to lead, as similar policies led in the decade before the war, to restriction of international trade and isolation of national economies. Costs and prices get out of equilibrium and the necessity soon arises to choose between abandoning the national policy or restricting competition from abroad. One country after another had this experience in the years of restrictive economic nationalism. The impossibility at that time of securing agreement in regard to fiscal and credit policies among even the leading powers led to successive strains on national balances of payments. Thus, Italy began, even before the Ethiopian war, to follow a policy of credit expansion for re-employment and rearmament. Prices rose, imports increased and exports fell off. There was a loss of exchange assets which was aggravated by speculative capital flight and it was not long before exchange control had to be adopted.

Isolation achieved in greater or less degree by such measures as exchange control and strict import quotas inevitably entails State control of the domestic economy. The very mechanisms of import control are selective. Such imports are allowed as suit the purposes of the controllers. Decisions in this regard—whether the imports are foods, raw materials or manufactures—are decisions as to the kind of production and employment desired within the country. They lead also to organisation of the domestic industries, usually by some form of cartellisation. Domestic control so fostered, however effective it may be in promoting the political purposes of the government, involves some measure of impoverishment, some decline in real levels of living. This may take such forms as lowered quality and limited choice of consumer's goods, increased personal taxes or restricted leisure, rather than reduction of money incomes; but the lowering of living levels is very real.

It is accentuated by the cumulative effect of reprisals by one country against the restrictions imposed by another. Policies of

economic nationalism attempt to preserve domestic markets for the home producer. In doing so they shut out competitive imports from other countries. Thus the United States tariff of 1930 raised the import duty on butter. This duty effectively checked butter imports both from Canada and from New Zealand. The New Zealand butter was diverted for a time to Canada just when the Canadians had lost their main export outlet. There was an outcry and the Canadian tariff was raised, whereupon the New Zealand butter could find a market only in Britain.

There were very many instances of such trade diversions which channeled export surpluses into a constantly narrowing world market. Protection became competitive in all its forms. Higher tariffs were met by reprisals and exchange depreciation begat further depreciation. Denmark (and many other butter exporting countries) quickly matched the depreciation of the New Zealand pound when that currency followed the Australian currency to a lower level.

Bilateral trade agreements, using new methods of trade restriction such as import quotas and exchange allocations, were particularly destructive of multilateral trade. It was obvious that any country whose balance of payments was strained would try to reduce imports from any country which did not take its exports. The inevitable result, however, was that it found that a third country to which it exported heavily was quickly forced to bargain those exports down because the second country had redressed its balance by cutting exports from the third, as its exports to the first had been cut. There was an international round-about of impoverishment, a continuous circle in which every country cut down the market for its neighbour and had its own cut when the wheel came full circle.

This process of mutual impoverishment, begun as a protection for national expansionist policies, quickly ensured their failure. Thus the United States tariff of 1930 was intended primarily as a protection of the home market. It touched off a whole series of tariff increases, some of which were direct reprisals, and all of which cut off American export markets. Widespread currency depreciations added to the confusion and a very effective set of new quota restrictions and exchange controls completed the damage to American export business. Both the domestic market and the export market reached depression depths by the beginning of 1933.

This familiar story does not need elaboration. It has been recalled here to point the definition of international collaboration. Continuing means of international consultation and clearing of policies are needed, if national policies aimed at social security and

full employment are to have a chance of succeeding in the post-war world. These means of consultation and clearing must aim at forestalling strains on the international balances of payments, so that the countries pursuing expansionist policies will not be forced either to abandon them or to cut international payments in a vain attempt to protect them.

What is to be aimed at, therefore, is not centralised economic planning by world institutions. Nor is it a rigid, pseudo-automatic, monetary system in which the pace of expansion is set by the least active member and others move faster only at the risk of disequilibrium. The objective must be to hold national economies together in an international system which allows them a good deal of freedom to follow policies suited to their particular circumstances. A modern automobile is constructed with a rigid body, but its wheels are attached with knee-action or other flexible devices that allow them to follow the unevenness of the roadway without communicating—and even exaggerating—the jarring shocks to every part of the automobile. There should be enough flexibility in national monetary systems to take the strains of temporary difficulty without communicating a deflationary shock to the whole world trading system.

To achieve such flexibility—which has obvious and definite limits—both national and international organisation must be modernised. The world trading system of the nineteenth century, which is often described elliptically and somewhat inaccurately as the international gold standard system, did in fact achieve a great measure of success in facilitating international investment, promoting world trade, and raising levels of living. It functioned successfully as “an instrument of change and growth”. Stability of the exchanges, ensured by the convertibility of the major currencies into gold at fixed parities, was an important part of the co-ordinating mechanism. That stability was the fixed point upon which the balancing of international payments was pivoted. Whenever national policy or economic development in any country threatened to cause strain, the exchange rate fell. If it fell or threatened to fall to the point where gold began to flow out of the monetary reserves, corrective measures were undertaken by the monetary authorities. These took the form of credit restriction designed to reduce prices and diminish out-payments.

As national banking systems developed, it became possible to cushion the strain on the balance of payments. The more extended use of credit by modern commercial communities rendered the monetary systems more flexible. There was more possibility of tiding over temporary strains without imposing drastic deflation upon the whole national economy. The art of central banking came

to include a larger element of conscious management aimed at stabilising prices and employment. Gold disappeared from circulation and gold shipments became the consequence rather than the cause of adjustments of the international balances.

This monetary technique, however, proved inadequate to prevent violent fluctuations of prices and employment when it was restored after 1918. It proved indeed to be a means whereby fluctuations arising in one country were transmitted and even exaggerated throughout the trading system. The reason is not difficult to understand. The international gold standard was only part, though an important part, of an economic system. It was the mechanism by which and through which payments were effected. The national economies between which payments had to be transferred were able to adjust themselves to the slight adverse balances when the total volume of payments was large. When trade was restricted and the payments owed by debtor countries were large relatively to the total value of their exports, the strain on their exchange rates proved intolerable.

Moreover after 1918 both the readiness and the ability of monetary authorities to make corrective adjustments in their national economies were diminished. The price corrections that were necessary to restore international equilibrium were much greater and the resistance to them was much stronger. Both these statements will be true again after the present war. No monetary mechanism, however streamlined it may be, will be able to cope with the adjustments needed in national economies, unless it functions as part of an expanding system of international trade. The secret of post-war policy is to get people working again and working in lines of production that cater for expanding demands. There will be a transitional period during which firm controls must be maintained over prices and raw material allocations so that employment may be directed into channels compatible with international equilibrium. This involves energetic action to exploit new processes, open up new markets and develop hitherto backward industrial areas. For these purposes international institutions must co-operate with national agencies and co-ordinate the efforts of those agencies.

III. THE CHANGING CONDITIONS OF PRODUCTION AND TRADE

A. MONOPOLISTIC COMPETITION AND INSTABILITY

The preceding sections have sought to define in simple and precise language the five main objectives of post-war action. Analysis and definition inevitably limit the rather vague aspirations expressed in the slogans which embody such objectives in popular discussion. There is a great deal of agreement on the broad objectives. There is much agreement even on the limits imposed by definition and by attempts to apply such definition in actual practice.

Disagreements arise when specific policies are proposed to achieve these objectives. Any practical policy which involves a reorganisation of economic activity entails sectional costs and sacrifices, at least temporarily. The allocation of these costs between different social groups and classes is always the storm centre of political disagreement. The conflict is real rather than theoretical; but it is often stated and argued in theoretical terms. To be realistic, however, policy must be based not on theories derived from analysis of past situations but on recognition of changed and changing conditions at the present time.

The real questions at issue are sometimes obscured by general and inconclusive debates which revolve around such phrases as free enterprise, individual initiative, *laissez faire*, capitalism and their opposites. The controversy between advocates of socialism or capitalism, or between planners and believers in free enterprise, however, is largely academic in character. For the immediate post-war period there will be little choice of instruments for action. Use will have to be made in most countries of the mixed system of private enterprise and public control that will emerge from the experience of war.

In the following paragraphs it will be argued that the economic system which operates in modern industrial communities has developed elements of rigidity and instability which hamper the smooth adjustments and self-correcting competitive mechanisms expounded by economic theorists. This, however, is not an argument for centralised economic planning. The planned world of

socialist thought is just as remote from present-day realities in most countries as the self-equilibrating market mechanisms of *laissez faire* theory. What actually exists is a mixture of private enterprise, often monopolistic in its tendencies, and public controls which are largely improvised and often restrictive in character. In this situation there is continuous struggle between sectional groups to gain advantage from, and avoid paying the costs of, any policies introduced to achieve new social objectives.

One school of academic thought, which until recently was dominant, and a large body of business opinion, which perhaps is still dominant, insist that private enterprise, unrestricted in its search for profit, will be forced by competition to the optimum use of the factors of production and therefore to maximum productivity. In this view individual initiative is the mainspring of the economic system, so that government intervention which handicaps such initiative will result in less than maximum output and more than minimum prices of the goods and services demanded by consumers. A strong logical case can be made for this view, provided the assumptions upon which it is based are accepted as conforming with reality.

Any attempt to examine these arguments should distinguish between two related but separate issues. The first question to ask is whether in fact the practical circumstances of economic activity at the close of this war will be such as to correspond to those assumed as a basis for the logical analysis by which free enterprise is justified. This whole analysis depends upon the assumption that the organisation of economic activity is such that competition can work freely so as to bring about an equilibrium of forces. It was developed in relation to simpler forms of economic organisation than those in operation today. There is no *prima facie* reason to believe that competition will in fact be able to work freely at the close of the war.

It should be recognised, however, that a great and effective degree of competition remains in the capitalist system as now organised. Preoccupation with monopolistic tendencies of individual businesses sometimes tends to obscure this fact. A great firm producing plastics by a patented process may exercise a significant degree of monopoly over their manufacture. But other similar firms produce plastics by different processes. Moreover scientific progress is continuous and new processes emerge from time to time. The older industries—wood, glass, and various metals—do not accept the intrusion of new materials without a struggle, so that in the long run there is a considerable measure of competition and the ultimate consumers exercise considerable

influence in determining the fate of both new and old processes. These facts should be borne in mind in considering the various manifestations of imperfect competition discussed below. Economic production is a dynamic process. Monopoly or monopolistic influence is a partial and temporary state of affairs, dependent for its continuance upon efficiency in meeting the demands of consumers. Considerable elements of competition remain; but equilibrium is no longer maintained by pure competitive bargaining of the *laissez faire* type. Indeed monopolistic competition tends to increase the potential instability in the economic system.

The second question is whether a policy of non-intervention, or *laissez faire*, will bring into existence the economic conditions favourable to the effective working of competitive forces. Granted that hindrances to competition exist, will a policy of non-intervention remove them? Are the hindrances to competition simply the consequences of ill-advised political interference with economic forces, or are they the inherent and inevitable result of that competition? Can we be sure that the removal of political controls will in fact restore a competitive situation?

It seems obvious that the circumstances of the immediate post-war period will not be such as to correspond to the assumptions of *laissez faire* theory. These may be summed up as the effective working of a market economy capable of reaching and maintaining equilibrium through the free play of competition. The working of the economic system is assumed to be such that it tends naturally towards an equilibrium, brushing aside and destroying obstructive elements such as attempts at monopoly. It is also assumed to be such as automatically to correct departures from equilibrium. In this broad assumption of a self-equilibrating and self-correcting market economy, two other assumptions are usually embodied. The first is that the point of equilibrium to which competitive forces tend always to return, is one which approximates to reasonably full employment of the factors of production. Indeed one of the distinguishing features of a monopolistic as distinct from a competitive system is that it combines the factors of production at a level below that of full employment. The second subordinate, though important, assumption is that the competitive market economy is not impeded by non-economic interferences such as the structural dislocations resulting from a great war. It is therefore assumed that the fluctuations of employment and production which represent departures from normal equilibrium will not be so violent as to exceed the recuperative and self-regulatory powers of the market.

To state such assumptions is sufficient to indicate how far they are from the realities likely to be encountered in the immediate

post-war period. The logic of the *laissez faire* argument may be impeccable; but it is largely irrelevant to the practical circumstances. It is clear that the similar logic by which public as distinct from private enterprise is defended in ideal circumstances, is equally remote from realities. It is highly improbable that farsighted, disinterested action by competent agencies, following well-thought-out and consistent policies, will be achieved in the stress and urgency of the post-war world.

Action is likely, on the contrary, to be a confused mixture of public and private operations, incompletely co-ordinated. It is in this confusion of policies that an attempt must be made to achieve the social objectives of a people's peace. Neither completely free competition nor completely planned public action is in fact possible. There will be elements of both and the proportion in which those elements should be combined in any particular country will be a major political issue.

There is some risk that vigorous action by powerful economic groups may lead to a form of industrial planning embodying large elements of monopoly. Many proponents of *laissez faire* policies recognise this danger. They realise that enlightened self-interest works towards maximum production and community service only when competition forces it to do so. But the technical conditions of modern industry and trade are such as to give rise to many forms of imperfect or monopolistic competition as well as to actual monopolies. It is argued, however, that "in a world free from trade restrictions and statutory support for monopoly, the tendency of free enterprise to break down monopolistic positions would be sufficiently strong".¹

The validity of this proposition today is open to serious question. In a predominantly agricultural and handicraft or simple manufacturing society, where the output of an individual unit was a small fraction of the whole output and where fixed costs made up but a small proportion of total costs, competition undoubtedly tended to destroy attempts at monopoly. Today the case is very different. The use of modern technical methods calls for the organisation of large units of production², so that in large-scale modern industries the percentage of total demand for a given

¹ Lionel ROBBINS: *Economic Planning and International Order* (London, 1937), p. 157.

² This technical cause of large-scale economies should be distinguished from the financial causes of mergers and combinations which have often resulted in the building up of inefficient units of production. The increasing financial independence of great industries appears to be causing a shift from financial to industrial management once again. The inter-war difficulties of the British textile and iron and steel industries, for example, are in part attributable to the increasing size of the optimum unit of production. Cf. A.F. LUCAS: *Industrial Reconstruction and the Control of Competition* (London, New York, and Toronto, 1937), *passim*.

product filled by an individual producer is often very large. The single entrepreneur, therefore, has a good deal of choice not only as to the size of his output but also as to the price he will charge. He must decide not just how much he will produce at the price set by the market, but how much he will produce and at what price he will sell it. His decision is governed by the combination of output and price that brings maximum net profits. Theoretically this is not the point of greatest output and lowest price or even the combination of price and output that is in the consumer's interest.

The causes of the prevalence of monopolistic competition, moreover, are not exclusively technical in character. They may arise also from "product differentiation".¹ By ambitious advertising campaigns a company may create, over a period of time, a psychological preference for its particular brand which amounts to a significant degree of monopoly power. The social importance of this characteristic of modern business organisation has been convincingly demonstrated by the development of the wartime phenomenon of "prestige advertising". Even when his products are no longer available on the consumer market, the corporation executive, in order to preserve for the future the degree of monopoly power which he has succeeded in building up in the past, may well deem it advisable to maintain his already considerable advertising outlays. And in an economy of monopolistic competition, when some firms start, others must follow suit.² A recent British study showed that roughly 6,900 tons of paper a year were used to advertise products which the consumer could no longer buy.³ A survey of conditions in the United States would probably yield similar results. We must beware of mistaking the brand-conscious mass society of large-scale and often monopolistic production in which we live for the ideal world of free competition where "the dictatorship of the consumer is a drastic purge of inefficiency".⁴

In the foregoing discussion of monopolistic conditions and practices no specific mention has been made of the development of monopoly in the labour market, which has often been stressed as a cause of long-term unemployment. Since the depression, and especially

¹ E. H. CHAMBERLIN: *The Theory of Monopolistic Competition* (Cambridge, Mass., 1938).

² As marginal tax rates on corporation profits are raised steeply to pay for the costs of war, this incentive is likely to grow stronger.

³ K. W. ROTHSCHILD: "Advertising in Wartime", in *Bulletin of the Institute of Statistics*, Vol. 4, No. 8 (Oxford, 6 June 1944), p. 173. The annual quota for book production was 20,000 tons.

⁴ Lionel ROBBINS, *op. cit.*, p. 237. Of the situation in American industry Professor E. S. Mason has said, "We are presented . . . with the spectacle of the representatives of industries in which concentration is very marked, asserting—and believing—that the prices of their products are determined by the impersonal forces of supply and demand". C. J. FRIEDRICH and E. S. MASON (eds.): "Price Policies and Full Employment", in *Public Policy* (Cambridge, Mass., 1940), p. 30.

during the war, a significant change of attitude towards the problem of unemployment has occurred. Among the general public it has taken the form of a shift of emphasis from opportunity to security. Among the workers it has taken the form of a similar shift of emphasis from insistence on minimum standards to demands for social security and the provision of full employment.

This change has important consequences. For while it may be true that rigidity in the labour market has been a source of unemployment, there are today but few responsible groups who would advocate a return to complete flexibility in that market. The idea of a "social minimum" is becoming more widely accepted, though inevitably opinion differs as to what that "social minimum" ought to be and how it should be achieved. What is important for the present argument, however, is the widespread acceptance of some degree of rigidity in the labour market, since it implies that in this sector of economic life a return to the conditions of free competition is no longer considered desirable, if indeed it were possible. For if downward rigidity of wages within a certain range is accepted, the *laissez faire* doctrine of non-interference with the price mechanism is no longer valid.

As the labour market has tended to become rigid, so has the market for capital. It used to be argued that the rate of interest, by equating the supply of savings to the demand for investible funds, acted as a balance wheel equating savings and investment so that the economic system continually tended towards a position of equilibrium at full employment. In the real world, however, few individuals or corporations now save more or less as the interest rate rises or falls. The amount which an individual saves is influenced far more by the level of his income and by the probability of being able to maintain it. Thus the amount and distribution of personal incomes will affect the level of economic activity since, other things being equal, the greater the inequality of incomes, the greater will be the propensity of the community to save. Gluts of savings may therefore ensue even if the rate of interest falls to zero and an inherent tendency may exist for a community to save more and spend less than is necessary to keep it at a level approximating full employment. "The personal distribution of incomes is an important determinant of both the supply of credit (the rate of saving) and the demand for credit (the rate of investment geared to expectations as to the rate of spending on consumer goods). In the one case it is the existing distribution, in the other case it is expectations as to the future distribution, that determines basic economic decisions."¹

¹ Werner BAER: "Equality and Prosperity", in *Social Research*, Vol. 10, No. 1, Feb. 1943, p. 120.

Account must be taken, in addition, of certain dynamic developments in the economic system. It is true that "progress necessarily involves the destruction of existing capital values"¹, but it is easy to underestimate the strength of capitalist resistance to that process. As the accumulation of capital proceeds and the importance of capital costs increases, the maintenance of existing capital values becomes a matter of increasing concern to the entrepreneur. This brings a change in the conditions of competition. A price war now becomes an expensive and hazardous undertaking. In such a situation it becomes more probable that, rather than risk his whole enterprise, the entrepreneur will seek an agreement with his rival. In the early period of American railroad expansion following the Civil War, for example, when large-scale industry was a comparatively new development, bitter cutthroat competition was the rule. As time went on, however, the lesson was learned. Agreements became more common, price competition less keen. As Adam Smith well knew, to combine is not less "natural" than to compete—when it pays higher dividends.

The progress of modern industry, moreover, has not only led to an increasing degree of monopoly and monopolistic competition. It has also increased the degree of instability in the market economy. In an economy where individual units of production were small, and fixed costs relatively unimportant, the "automatic mechanisms" of competition acted as effective instruments of progress and smooth structural change. But where fixed costs are high and low-cost production is made possible by operating on a large scale, it is by no means certain that the economic system remains flexible enough for the "automatic mechanism" to operate as an effective "governor". It has been demonstrated that the growing relative importance of large industries producing capital goods is itself a potential source of economic instability.² As consumer demand increases a process of expansion is set going in these capital goods industries. Should the increase in consumer demand even be stabilised, a substantial drop in the level of activity of the industries producing new capital goods is bound to ensue. There seems no doubt that this fact goes far to explain the greater violence of recent cyclical fluctuations in economic activity.

Furthermore, the high degree of specialisation which characterises many of our modern productive processes has brought with it increasing obstacles to smooth changes in the structure of industry. A simple illustration may be cited from agriculture. Production of many specialised crops such as tea, coffee, rubber, de-

¹ Lionel ROBBINS, *op. cit.*, p. 151.

² Cf. J. M. CLARK: *Strategic Factors in Business Cycles* (New York, 1935).

ciduous fruits, olives and citrus fruits is a long process. In prosperous years, if demand for such products increases, individual producers may be induced to extend production by planting new orchards or plantations. The trees may take three, five, seven or even more years to mature. Producers can hardly be expected to be accurate in forecasting consumer demand so far ahead. In a period of prosperity their forecasts are likely to be over-optimistic and the outcome may well be a glutted market and continuing over-production. This has in fact occurred in all the industries mentioned above. The cycles of production in the great corn-hog belt of the United States are perhaps also traceable, at least in part, to this type of inflexibility.¹

In a provocative article, Mr. D. H. Robertson has suggested also that the spread of industrialisation may be causing the margins of comparative advantage in certain lines of manufacture to narrow significantly.² This does not mean that the progress of industrialisation is bound to cause a decrease in the volume and importance of international trade. A shrinkage in the "gaps" of comparative advantage is quite compatible with an increasing volume of trade. Mr. Robertson's point is rather that structural changes of this sort are likely to render the volume, composition and direction of trade less stable. As he points out, although it is difficult to say how much weight ought to be given to this argument, it is likely that it will have great practical influence on trade policies.

The very fact of increasing production, shifting from necessities to a wide and variable range of luxury goods and services, adds to the instability of the economic system. As early as 1691 Sir William Petty drew attention to the fact that the relatively high per capita income in Holland was associated with the employment of a large proportion of the Dutch population in manufacture and commerce. This connection still holds true.³ As average real income per head

¹ For an ingenious theoretical explanation, cf. Mordecai EZEKIEL: "The Cobweb Theorem", in *Quarterly Journal of Economics*, Vol. LII (1938), pp. 255-280. In spite of Professor N. H. BUCHANAN's severe and searching criticism of the above article ("A Reconsideration of the Cobweb Theorem", *Journal of Political Economy*, Vol. 47 (1939), pp. 67-91), we are inclined to believe that Ezekiel's argument, while it may not be consistent with the behaviour of the "economic man", may be applicable to the Middle-western farmer.

² D. H. ROBERTSON: "The Future of International Trade", reprinted in *Essays in Monetary Theory* (London, 1940), p. 218.

³ Cited by Colin CLARK: *The Conditions of Economic Progress* (London, 1940), pp. 176-7. "The highest ratio of tertiary producers to occupied population is shown by Great Britain and U.S.A., where the figure was 50 per cent. Almost equally high figures are shown by New Zealand and Australia. These countries enjoy the highest average real income per head. The countries in which 50 per cent. or more of the occupied population are engaged in primary production are all . . . found at the lower end of the list. Furthermore, no country whose average income per head is below 400 units fails to show at least 40 per cent. of its population engaged in primary production, with the exception of Japan, where the proportion engaged in tertiary production is inexplicably high." *Ibid.*, p. 182.

risers, an increasing proportion of that income is spent on goods and services the demand for which may be rather unpredictable. It is true that higher real incomes extend the range of "conventional necessities" so that demand becomes stabilised for many commodities that were formerly luxury goods. Many of these commodities, however, are articles of durable rather than immediate consumption, so that replacement demands may be postponed when incomes fall. When as many as 20-30 per cent. of the working population are engaged in secondary, and 40-50 per cent. in tertiary production, this potential instability may become serious and there is increased danger of a small decline in purchasing power leading to a substantial fall in effective demand and a destructive spiral of secondary deflation.

Recent trends in population growth are also calculated to bring changes in the composition of aggregate consumer demand which may cause increased instability. It is difficult to evaluate the importance of factors such as these but the slowing down of the rate of population increase, now characteristic of the Western world, may well bring a slowing or a cessation of the expansion of demand for certain consumers' commodities, such as food, clothing and shelter, which are functionally related to population growth. In few of these industries has anything like a saturation point been reached. But catering for a rising standard of living for a given population is likely to be more risky than providing the same simple goods and services for more people. Demand for luxuries and semi-luxuries is liable to be uncertain. Furthermore, in that type of market, selling costs are high and monopoly and monopolistic competition widespread. Progress may thus become even more discontinuous. As the relatively rigid sectors of the economy grow in importance, the introduction of innovations may become more difficult. Existing entrepreneurs may not wish to undertake the financial risks and these may be too great for new entrepreneurs.

Aside from these technical and structural causes of increasing instability, but equally important, are those intangible psychological causes which go to make up "the prevailing spirit of optimism or pessimism". Individuals and firms base their decision upon their judgment or "expectations" as to the future. The effect of these expectations, operating through speculation in an inherently stable and purely competitive system is very different from their effect in a system subject to violent and unpredictable fluctuations in economic activity. Under the classical assumption that any movement away from the point of equilibrium will tend to set in motion forces bringing about a return to equilibrium, speculation will act as a counterweight to any fluctuations that may occur and will

tend to minimise them. But when the movements away from equilibrium are expected to be followed by still greater movements in the same direction (as in the downswing of the business cycle), the "expectations" of producers, or more exactly the decisions based upon these "expectations", are calculated to reinforce the secondary fluctuations, rather than to counteract them.

The "artificial shortages" which make their appearance in war-time illustrate this cumulative process. If, in the absence of rationing, consumers come to believe that supplies of some commodity are limited, they are apt to stock up and, in so doing, make their fear a reality. On the stock exchange this very human failing has long been exploited by experts who, acting rationally and in their own interests, seek to anticipate changes in the market and gain by the resulting price movements, which have little relation to the prospective returns on the stocks involved.¹

There is little disagreement now with the facts set forth above. The disappearance of free competitive conditions and the unreality of attempts to restore them by attacking certain of the more overt forms of monopoly is generally recognised. Debate on the merits of free enterprise in a self-adjusting market economy is largely academic—a repetition of irrelevant conclusions from past experience. The real issues of present policy centre upon the location and concentration of power in the existing economic system.²

The concentration of economic power which flows from technical developments is increased by the "splitting of the atom of property" as a result of which the control of great enterprises has passed from scattered owners to the small, compact boards of directors.³

All these developments, changing the character of industrial organisation and relocating the power inherent in its operation, have rendered invalid or have seriously weakened the controlling mechanisms by which economic equilibrium was achieved in the past. Policies, whether of business or government, evolved from the simpler conditions of an earlier period, may therefore often

¹ Cf. J. M. KEYNES: *The General Theory of Employment, Interest and Money* (London and New York, 1936), pp. 150-164.

² The most important social criticism of great inequalities has been forcefully stated by Professor Laski: "Every approach to objective tests of social good, all the groundwork, therefore, of political obligation, is ultimately a function of increasing equality. For men think differently who live differently and . . . the unity which gives endurance and stability to a society is therefore unattainable when they live so differently that they cannot hope to see life in the same terms. It is the poison of inequality which has wrought the ruin of all great empires in the past." *The State in Theory and Practice* (New York, 1935), p. 84.

³ Robert A. GORDON: "Ownership by Management and Control Groups in the Large Corporation", in *Quarterly Journal of Economics*, Vol. LII (1938), pp. 367-400.

become inappropriate. An illustration is provided by the attitude to monopoly typified by the Sherman Act and the recent policy of the Department of Justice in the United States. This attitude is derived from a legal theory based on economic concepts of pure competition which have long been discarded by most economists and business men. Its inadequacy results from the oversimplified concept of monopoly from which it works. This concept tends to identify "monopoly" with "collusion". Actually the absence of hidden agreements proves very little. If, for example, an individual from among a relatively small number of producers assumes that if he cuts his price all his rivals will do the same he will clearly not be likely to do so since such an action will leave him the same proportion of the total trade at a smaller margin of profit. Only if the demand for his product is highly elastic, so that the cut in price calls forth an increase in total sales large enough to offset the fall in the profit margin, would it be profitable for him to make it. Thus a situation similar to that of monopoly can exist without collusion among the individual firms.¹ Control of monopolistic tendencies in modern industrial society calls for new devices which recognise the changed technical conditions of productive efficiency.

Classical economic theory, and the political theory which developed along with it in the nineteenth century, was based upon the assumption that in a free society of rational men, suitable and desirable forms of social organisation would develop as the need arose for them. Social organisation, however, does not change without cost. The scale of organisation is now so great, the pace of technical change so rapid, and the dislocation caused by it so vast, that no simple formula of adjustment can be adequate. A determined effort of reorganisation is required and it is inevitable that the costs of any projected change in social organisation shall form the subject of obstinate and even bitter conflict.

"Free enterprise" or "capitalism", it should be recognised, is now something very different from what was described by those terms some generations ago. A strong case may still be made, and is made, for it; but the issue should not be confused by arguments derived from history. The case should be made, and criticised, in relation to present facts rather than past controversies.

It should be recognised that private enterprise, in the setting of modern methods of production, transport and communications, tends more and more towards large-scale organisation. This inevitably entails not only monopolistic tendencies in marketing but

¹ For an excellent analysis of these problems, cf. E. A. G. ROBINSON: *Monopoly* (London and Cambridge, 1941), chapter II.

increasing concentration of control within the organisation. Large units of organisation cannot be managed except by some measure of autocracy.

The case for large-scale private enterprise, vigorously managed, is primarily based upon its claim to efficiency. The real issues of policy, therefore, turn on the question whether private industry is likely in fact to be more efficient—in its reliance on scientific research, in the boldness with which it exploits new discoveries, in the shrewdness with which experimental investment is ventured. The tests of efficiency are wider than mere productivity and certainly can no longer be confined to the sole criterion of profitability. An efficient business must be both profitable and productive; but if private business is to survive it must also prove its ability to meet the needs of society. It should be remembered also that large profits are not always a sign of monopoly. Indeed the case against monopoly rests less upon the reaping of excessive profits than upon the lack of enterprise, conservative management and inefficient organisation by which it is often characterised, and upon the power it accumulates to obstruct more efficient methods of production. This is as true, or truer, of public as of private monopolies.

The extraordinary success of the great armament programme by which the United Nations have out-produced the Axis has been hailed both by the proponents of public control and by the defenders of private enterprise as justifying their viewpoint. The fact is that success has been due to clear social objectives having been accepted and energetically implemented by public and private executives alike. There have been delays, false starts, mistakes and waste, but in time of war results are what count and in this case ships, planes, guns and munitions have been produced in quantities to beat the Axis.

The post-war transition years will be the testing ground for the survival of private enterprise. Doubtless the sphere left for its operation will be less in some countries than in others. It will perhaps be greatest in the United States where the great manufacturing industries are most developed. If it can provide jobs and maintain living standards so that the mass of the people can live their private lives in reasonable security and comfort, there will not be much questioning of its monopolistic tendencies. Much of the complicated government regulation of its activities will disappear at the end of the war and it is possible that programmes of public employment in the United States at least may be held in abeyance pending the results of private initiative.

The issue of monopoly power is even more fundamental than that of profit. The critics of private enterprise rightly stress its

importance.¹ There can be no doubt that the efficient management of great private enterprises places great power in few hands. The proponents of private enterprise, however, maintain that such power is justified by the economic and social results of its exercise. They admit that it involves inequality of income distribution but argue that this is a small price to pay for abundant production. They point also to the undeniable danger that public enterprise may lead to a situation in which even greater power is placed in the hands of those who control the State.

There is a similar cross-argument about bureaucracy. All large undertakings move cumbrously, and business, as well as government, develops bureaucratic tendencies as it grows in scale of operation. To break through red tape requires some measure of dictatorial authority. Civil services, established when the tradition of government was on the whole negative rather than positive, do not normally produce men of courageous innovation.² In so far as the economic functions of the State are concerned, the need for civil servants with these qualities may be met in time by new methods of recruitment designed to secure men with some experience of industrial and commercial affairs who would be the advisers of the government on economic questions and the executants of its policy.³ But until such time as civil servants of this type are available authority to make innovations and take risks must come from above. It is at least arguable that such authority, exercised in the limited spheres of private businesses, is less dangerous than when exercised over society as a whole. Even if there is a tendency towards consolidation of business power by interlocking organisations⁴, this argument can be maintained. That such a tendency exists is clear, though its extent is difficult to gauge and perhaps easy to exaggerate. It should be recognised and controlled; but it would be poor policy to risk the greater evil of complete State tyranny through fear of partial industrial monopoly power. It is, of course, always possible that integrated industrial power may ally

¹ Cf. R. S. LYND, in Foreword to R. A. BRADY: *Business as a System of Power* (New York, 1943). "Liberal democracy", warns Professor Lynd, "has never dared face the fact that industrial capitalism is an intensely coercive form of organisation of society that cumulatively constrains men and all of their institutions to work the will of the minority who hold and wield power; and that this relentless warping of men's lives and forms of association becomes less and less the result of voluntary decisions by 'bad' or 'good' men and more an impersonal web of coercions dictated by the need to keep 'the system' running."

² *Sixteenth Report from the Select Committee on National Expenditures*, Session 1941-42 (London, 1942).

³ Cf. *Economist*, 23 Oct. 1943, pp. 544-545, and Sir Josiah STAMP: "The Administrator and a Planned Society", in *Public Administration*, Vol. XVI, 1938, pp. 3-22.

⁴ Cf. R. A. BRADY, *op. cit.*

itself with State tyranny in the shortsighted illusion that by so doing it can use the machinery of State for its own purposes. The recent experience of the totalitarian countries shows that by so doing it encompasses its own destruction. The costs of such an alliance are now evident and ought not to be forgotten. If the temptation should recur the true antidote is to be found not in controls that cripple industrial efficiency but in a vigilant democratic enforcement of the constitutional safeguards of individual liberty¹, and in a strong and responsible organised labour movement.

B. THE INTERNATIONAL ASPECTS OF INSTABILITY

The preceding section of this study has been devoted to a summary statement of the various ways in which national economic activity has changed in recent years in most countries. The organisation of production and trade now differs considerably from the small-scale competitive market economy on which the main body of classical economic theory was postulated. Units of industrial organisation are larger; the technical complications of modern industry involve not only large-scale operation but expensive research, marketing and advertising. They have also changed the character of the patent rights upon which specialised production largely rests. A greater degree of monopoly and monopolistic competition has therefore emerged and this is in large measure independent of overt agreements.

As living standards are raised production becomes less flexible. The major element of rigidity is to be found in the growing importance of fixed capital in total production costs and of the capital goods industries in the economy as a whole. At the same time labour costs have become less flexible and developments during the war have strengthened this tendency. With consumers' demand more variable in some respects and both labour costs and capital costs more rigid, the pressure for adjustment as economic conditions change tends to be concentrated on a narrowing segment of economic activity and mainly on raw material prices. These fluctuate violently and bear harshly upon the less highly organised economic groups and countries.

In these circumstances the conflict between the principles of organisation usually described as private enterprise or government planning has shifted to a new plane. There is no longer the prospect of returning to a self-regulating competitive market economy. Neither is there at present any real possibility in most industrial

¹ Douglas MILLER: *You Can't Do Business with Hitler* (New York, 1941).

countries of inaugurating a completely planned system of public enterprise. What exists, and is likely to exist after the war, is a mixed system in which the sphere of public operation, and still more of public controls, has been extended; but in which private enterprise still plays a powerful role. The proportions in which public and private enterprise are combined will clearly differ from country to country. A strong case can be made for the preservation of a considerable measure of free enterprise on the ground of efficiency in production and readiness to experiment. Such enterprise contains larger elements of monopoly than it once did and therefore concentrates a great deal of economic power in relatively few hands. Against this must be balanced the risk that, in default of free enterprise, an even greater aggregation of power may fall into the hands of political groups controlling the whole machinery of economic activity in the name of the State. The working out of policies designed to achieve maximum employment and increased social security must therefore be attempted by a combination of private enterprise and public controls.

International economic relations naturally reflect the impact of these changes in industrial and market organisation. The classical theory of international trade and investment was worked out upon the assumption that for most products the whole trading world formed a single market or at least an integrated series of connected markets. One of the great merits of free trade was assumed to be its efficacy in linking the whole world into a great commercial republic. Government, in this view, was to be confined to purely political issues, keeping the ring free for private enterprise to operate efficiently on a world scale. Goods would be produced where costs were lowest and sold where demand was strongest. Capital, in Bagehot's famous phrase, would run everywhere as it was wanted, or as the rate of interest tempted it.

Upon the assumption of a world-wide market economy, the classical theorists built up an attractive picture of an intricate but integrated self-regulating structure in which not only the prices of commodities, but the costs of production—wages, interest and prices—were kept in a shifting equilibrium all over the world. The neatness and symmetry of this theory had a great fascination for economic students. It was often compared with a beautiful and powerful piece of machinery or with the working of natural forces such as those which govern the solar system.

The centre and pivot of the whole structure was the fixed and stable ratio at which national currencies were exchanged. This ratio was determined, when the international gold standard was in operation, by establishing legal tender gold currencies of a fixed

weight and fineness. A simple arithmetical calculation established the parity between each pair of currencies. Thus when 123.274 grains of gold, eleven twelfths fine, was coined into one pound sterling and 25.8 grains of gold, nine tenths fine, was coined into one U.S. dollar, simple division showed that one pound was equal in gold content to 4.8665 dollars. The fact that gold was used as a common denominator was incidental. The important fact was that this rate of exchange was kept stable within narrow limits. Payments between the United States and Britain were made largely by clearing, or offsetting. If at any moment there was a balance due to the United States because of heavy exports to Great Britain, pounds would be sold and dollars bought on the exchange market. This would depress the value of pounds and raise the value of dollars so that perhaps \$4.83 would buy one pound. If the balance was small it would be absorbed by banking credits. If it was great enough to cause a shift in the exchange rate, a whole series of speculative and real transactions would be set in motion, tending to bring the rate back to parity. Speculators would buy pounds if they were cheap and such was the ease with which funds could be transferred that even a slight difference would attract them to the cheap currency. If, however, the cheapness persisted, American exporters would find the price for their goods reduced. For example, a shipment of 10,000 bushels of wheat at 5 shillings per bushel would bring £2,500. At \$4.8665 to the £ this would be worth \$12,166.25. But if the exchange rate fell to \$4.83 it would be worth only \$12,075.00. Even such a slight difference, less than one per cent., was often important enough to divert trade at this period when the markets were highly organised and ships, touching at a port for orders, might be diverted from one market to another as a result of fractional price changes much smaller than one per cent. In the opposite direction British exports would be encouraged as imports were discouraged.

If the exchange rate remained off parity because of a persistent disequilibrium of inward and outward payments, the monetary authorities would take positive steps to accelerate the corrective processes. If the exchange rate fell below the point at which it would become cheaper to buy gold and export it rather than pay as dearly for the foreign currency needed, the loss of gold from bank reserves was always regarded as a danger signal calling for such positive steps. Usually these were taken before gold was shipped. The rate of rediscount was raised. Fixed interest securities might also be sold so as to tighten up interest rates. These measures were usually sufficient to deflate prices and check imports in the country whose balance was under strain. Opposite steps in the country

whose currency was strong would release credit, raise prices and encourage imports.

This is a highly simplified description of an intricate and complex system which included free movements of goods, free gold shipments, and free currency transactions, as well as constructive speculation anticipating and correcting price discrepancies in and between these markets. There was an incessant series of operations in which the movement of prices was continuous but small. As compared with the violence of such price and currency changes since the international gold standard broke down these incessant changes were like the ripples that ruffle a calm surface rather than great waves.

The essential conditions for success in such a system of international payments, however, were flexibility of costs and prices and readiness to accept adjustments of production, employment, wages and prices as these were imposed by external influences. The case for free trade, as practised by Britain in the nineteenth century, rested essentially upon the belief that market equilibrium in a free competitive economy could be achieved and maintained on a world scale.

In the circumstances that will follow the present war, however, it would be highly unrealistic to base proposals for exchange stabilisation or even for freer trade upon the assumption that a competitive equilibrium can be restored and maintained between national economies merely by removing controls and allowing competition to work freely. That experiment was tried after the last war with results now only too familiar. By 1939 only two countries, the United States and Belgium, remained on a standard based on gold and the world trading system, like the world currency system, had virtually broken down.¹ If any attempt to restore world trade is to be successful, it must reckon with the disequilibria that have been created by two great wars and aggravated by policies of economic nationalism between the wars. It must start, too, from a recognition of the domestic rigidities and instabilities summarised in the preceding section and from the changes in the pattern of international economic relations described briefly below.

In recent years a great network of private international agreements has been organised between individual producers or national producers' organisations. These agreements have taken various forms. In some industries a loosely organised "gentleman's agreement" has been chosen, in others an elaborately organised cartel has been preferred.

¹ Cf. LEAGUE OF NATIONS: *The Transition from War to Peace Economy*, Report of the Delegation on Economic Depressions, Part I (Geneva, 1943), pp. 24-26.

Such private international agreements are not new. A French study¹ shows that in the iodine, potash and bismuth industries they have been in existence for well over sixty years, and that by 1914 international controls were in force covering such important products as nickel, aluminium, zinc, mercury, potash, calcium carbide, platinum, sugar and quinine. It is noteworthy that most of these early agreements covered scarce mineral raw materials found in only a few deposits on the earth's surface.

While the great majority of existing controls were swept away by the impact of the first world war, the movement towards conscious control was given added impetus and to some extent new direction by the institution of numerous administrative control boards—both during the war and in the first “reconstruction period”. Some of these, like the Copper Export Association, the Bandoeng Tin Pool and the British Australian Wool Realisation Association formed precedents for later schemes. In the decade following the first world war, severe industrial dislocation made such agreements seem more desirable, and between 1922 and 1929 rubber, copper, steel, coal, nitrates and cement, electric lamps, wire and many products of the dyestuffs industry² were added to the list of “controlled” materials. With the onset of the depression the pace of organisation quickened enormously and production and other direct controls spread to wood pulp of various types, to rayon, to paper, and to various products of the chemical, electrical and many other industries. The outbreak of war, waged as much with economic as with military weapons, has made it inevitable that administrative regulation should play an increased role in economic life, and some of the wartime control boards, like some of their predecessors in the last war, may well continue after the war.

The study cited above lists 140 international economic agreements covering a great variety of raw materials and manufactured products ranging from aluminium, coal, copper, jute, lead, mercury, petroleum, potash, steel, sulphur, wood, zinc, wheat, coffee, cotton, nitrates, rubber, tin, tea, sugar, soda ash, pyrites, ferro-alloys, coke, tubes, electric lamps, steel rails, whale oil, platinum, wire, wire rods, and tinplate, to bolts and nuts, ball-bearings, buttons, corks and matches. Despite this wide variety the study makes no claim to be exhaustive. It certainly underestimates the importance of the United States in the system of control since it does not take account of the effects of the Sherman Act on the large American producers.

¹ Laurence BALLANDE: *Essai d'étude monographique et statistique sur les ententes économiques internationales* (Paris, 1936).

² Cartel agreements apparently existed in the dyestuffs industry much earlier; cf. Joseph BORKIN and Charles A. WELSH: *Germany's Master Plan* (New York, 1943).

There is no mention, for example, of the Zeiss—Bausch and Lomb agreement on optical glass, the I. G. Farben—Standard Oil agreement on synthetic oil products, that between Alcoa and the Alliance Aluminum Cartel and others which have recently come to light.

Cartel agreements have thus increased greatly in number and have spread more and more to manufactured goods. The reasons for this development are to be found in the same technical and organisational changes in industry as brought about the growth of monopoly within the national economy. Indeed these international arrangements were possible only after the various national industries had been relatively closely integrated.¹ Thus the rise of national trade associations is closely connected with the growth of international industrial agreements. The scope and effectiveness of these agreements have likewise increased. Many have been extended geographically, as, for example, aluminium and nitrates, while others have been made more flexible by the inclusion of clauses concerning stocks, as for example in the tin, rubber and sugar agreements, and by focussing control on exports rather than on production as in the Steel Cartel agreement of 1933.

The attitudes of governments towards such agreements have also undergone significant changes. In France, Germany and Italy such agreements between producers, both national and international, have long been accepted and even regarded with favour. It is perhaps significant, for example, that the first French quotas were set up (in 1932) by agreement among the interested parties.² In Great Britain, cartel agreements used to be looked upon with suspicion. Since the war of 1914-18, however, and especially since 1931, a significant change has taken place. Agricultural marketing boards became widespread within the country and the National Government not only looked kindly upon, but even actively promoted international producers' organisations.³ The International Tea Committee, in which the British Government took the initiative, was an intergovernmental organisation, as were the International Rubber Regulation Committee and the International Tin Committee.⁴ The part played by the British Government in the

¹ Cf. the circumstances surrounding the British entry into the International Steel Cartel. ERVIN HEXNER: *The International Steel Cartel* (Chapel Hill, 1943), pp. 113 ff.

² LAURENCE BALLANDE, *op. cit.*, p. 317.

³ "As the early rejection of centralised control by British industry rested upon the prosperity of the nineteenth century, so its final acceptance resulted from the adversity of the twentieth." A. F. LUCAS, *op. cit.*, p. 20.

⁴ For a collection of the texts of the various existing intergovernmental commodity control agreements, and of extracts from the principal international pronouncements on commodity control policy, together with a discussion of some of the social issues involved, see INTERNATIONAL LABOUR OFFICE: *Intergovernmental Commodity Control Agreements* (Montreal, 1943).

negotiations between the British steel producers and the *Internationale Rohstahl Exportgemeinschaft* is of special interest in this regard. Presumably to increase the bargaining strength of the British industry the import duty on steel products was raised to 50 per cent. *ad valorem* on condition that the industry formed a national organisation. Agreement was finally reached with the continental steel cartel in 1935. The British share of exports was to be the same as in 1934, while continental exports to Great Britain were restricted to 670,000 tons in the year ending 7 August 1936 and to 525,000 tons thereafter. "At the same time it was agreed that the British duty should be reduced to 20 per cent. *ad valorem* in order to give a higher profit margin to the continental producers on the permitted tonnage of imports. This was combined with a licensing system . . . later the duty was reduced to 10 per cent."¹

In the United States the governmental attitude, typified by the Sherman Act and the policy of the Anti-Trust Division of the Department of Justice, has been steadily hostile except to agreements relating to the export market. The anti-trust legislation, however, has not prevented the adherence of American producers to international industrial agreements.

The immediate aims of the governments have ranged from a desire to increase revenue, as in the Japanese camphor monopoly—now broken by the development of the synthetic product—to the wish to preserve natural resources as in the International Whaling Convention. But a careful examination reveals that aid to producers is almost invariably in the background. Now it is evident that high-cost producers stand to gain most by such arrangements. In practice the regulation committees are producer-controlled, and it is but natural that, in "stabilisation" measures, they should tend to raise prices readily but find the idea of lowering them distasteful.

The main reasons for international control have their roots in those technological and organisational changes in the economic system which have been discussed above. One such change, the international control of patents, has recently been much in the public eye. Patents are of various types. Today a patent may establish the exclusive right to manufacture some small contrivance; it may also cover the improvement of an existing process; but most important of all, a basic patent may stake out a claim to research in some scientific field, or in other words, may set up a monopoly on a branch of scientific knowledge. Originally a patent was granted

¹ P.E.P.: *Report on International Trade* (London, 1937); cf. A. F. LUCAS, *op. cit.*, p. 118; ERVIN HEXNER, *op. cit.*, p. 114. "When the steel industry asked for an extension of these duties for an indefinite period, the government urged the industry to establish a national organisation in which all of its pressing problems could be solved or considerably mitigated."

to ensure the carrying out of some project considered desirable. Nowadays the granting of patents is justified on the ground that it encourages and stimulates invention.

Like classical political economy, contemporary patent law developed in and was suited to a small-scale economy. It has not changed as large-scale production developed and industrial concentration proceeded so that today the cost of research and the cumulative effect of a large block of patents, together with the financial strength of the great corporations, have combined to give these corporate giants a high degree of monopoly power in their respective industries, and sometimes to "create an atmosphere in which it is easier to combine to the detriment of the consumer than to serve him".¹ In short, it is possible that patent protection today, instead of giving the maximum encouragement to enterprise, may give to those who put inventions on the market the power and often the incentive actively to discourage enterprise and development in order to maintain existing capital values. Under the existing legal position relating to the private ownership of patents, corporations working on the same problems along similar lines in different countries are likely at some point to have to choose between pooling their resources by agreement or facing expensive patent litigation or an even more expensive laboratory search to evade the blocking patents of their rivals. The actual importance of patent rights is lessened by the rapid and continuous progress of scientific research; but the possibility of litigation based upon such rights is always an effective inducement to the taking of prompt and complete legal cover.

The methods of cartel control are almost as varied as the commodities regulated. Their legal form may be anything from a "gentlemen's agreement"² to a State monopoly³, and they may ration production⁴, regulate exports⁵, reserve home markets⁶, or involve some other geographical market division⁷, and exercise direct control of price⁸, or stocks.⁹ New variations will no doubt make their appearance, and although many of the agreements have been disrupted by the war, any realistic policy of international economic reconstruction must take account of their probable re-appearance.

¹ *Economist*, 16 Jan. 1943, p. 78.

² Cf. wood pulp (Sulphite Pulp Suppliers) and ferro tungsten.

³ Camphor.

⁴ Aluminium, cocaine, cinchona bark-quinine, tea, wheat, platinum, etc.

⁵ Mercury, sugar, tea, tin, wheat, kapok, wood pulp, rubber, steel.

⁶ Nitrates, mercury, potash, sulphur, cement, codine.

⁷ Phosphates, potash, quebracho, sulphur, paraffin and sugar.

⁸ Aluminium, cobalt, ferro-silicon, opium, platinum, potash, quebracho, sugar and tin.

⁹ Aluminium, cobalt, opium, sodium sulphate, cinchona bark-quinine, coffee, sugar and tin.

It has frequently been claimed by those who favour the extension of the cartel system in the international sphere that it leads to rationalisation and increased efficiency in the industry concerned. Examination of some of the schemes in existence leads, however, to the conclusion that so far from increasing efficiency, one of the greatest dangers of such a system is that, by protecting high-cost producers in the interest of existing capital values, it may set obstacles in the way of technical progress. Illustrations might be taken from the tin industry, the copper industry, the Chilean nitrate industry and others. A smoothly functioning control scheme must eliminate excess capacity and not simply protect existing investment and put off the day of reckoning as most existing control schemes have done. If the cartel is strong it can, and will, exact monopoly profits; if it is weak, like the first copper cartel, it can lead only to an aggravation of the evils that brought it on.

The opinion is voiced, more often now than formerly, that the shortcomings of cartels can be eliminated as the organisation is improved, and that the instability which they have sometimes caused arises from faulty, shortsighted and avaricious management. "Producers are realising", says the P.E.P. *Report on International Trade*¹, "from the aspect of enlightened self-interest, that it pays to maintain the good will of consumers at all times". Again, "We believe that the technique of trade control by cartels is coming increasingly to be based on sound economic principles and can contribute to the orderly expansion of trade, and perhaps also to the elimination of excessive fluctuations in economic activity. But it cannot be sufficiently emphasised that progress in this direction can only be secured by the active intervention of governments to ensure that agreements should not take a form detrimental to consumers."²

It is thus argued that private cartel organisation can be used in the general welfare. It may be true that by maintaining the good will of the consumers (and in many cases these too are large monopolistic concerns) international cartels have learned to some extent to mitigate instability in their own particular industries. But to say that they have learned to do this is simply another way of saying that they have learned to exploit their monopoly position more intelligently. In technical language, where they formerly gauged the demand in the short run they now do so in the long run.

¹ P.E.P., *op. cit.*, p. 93.

² *Ibid.*, p. 10. Cf. W. OUALID: *International Raw Materials Cartels* (International Studies Conference, Paris, 1938); the Federation of British Industries Report on Reconstruction adopted on 15 April 1942; and the programme of the World Trade Alliance Association cited in the *New York Herald Tribune*, 20 July 1943, p. 23.

If governments are to prevent cartels from following policies detrimental to consumers they must prevent monopoly producers from acting rationally and in their own immediate interests. It would appear, therefore, that there must be a constant conflict of interest between the organised producers and governments representing the mass of consumers. This conflict is not always apparent, for in the recent past governments have increasingly favoured the cartellised producers and have often lent active support to industrial agreements which could hardly benefit those whose interests the governments were said to safeguard. As the *Economist* trenchantly remarked, "The result has been to revolutionise the attitude of industry to the State: the policeman has turned Father Christmas."¹

In the national commodity control boards created since the present war began the influence of organised business groups has, on the whole, increased. In Great Britain, for example, the majority of the boards are headed by men prominent in the corresponding trade associations. It could indeed hardly be otherwise. In peacetime the great bulk of goods and services is produced by private industry. In a national emergency the government must turn to private industry for the goods it requires.²

This increase of the political power of organised industrial groups, if not carefully controlled, may lead nationally to a sort of industrial feudalism, and internationally to a trading system increasingly dominated by agreements between powerful national industrial groups.³

The increasing resort to international commodity agreements and cartels which has been outlined was partly caused by the prevailing instability of prices in the years immediately preceding the war. In turn it further concentrated the pressures of competitive adjustments and increased the instability of prices in the uncontrolled sectors of international trade.

In the inter-war period one of the most disturbing factors in the international economic system was the extreme instability of prices of foodstuffs and raw materials. "During the last twenty years", runs the League of Nations report on the transition period, "the price of wheat and of jute has been halved three times within about twelve months, the price of cotton three times in periods under eighteen months. The price of copper and of lead was halved

¹ *Economist*, 18 Mar. 1939, p. 551.

² Cf. Donald C. BLAISDELL: *Economic Power and Group Pressures*, Temporary National Economic Committee, Monograph No. 26 (Washington, 1941).

³ Cf. the negotiations between the Federation of British Industries and the *Reichsgruppe für Industrie* which failed only when German soldiers entered Prague and forced a change in British foreign policy.

four times within periods of two years, and doubled three times even more rapidly. The price of zinc was halved twice in eighteen months, of tin twice in twenty-four months; zinc and lead doubled in price three times in two years or less; copper three times in eighteen months. On one occasion the price of coffee was halved in eight months, on another the price of sugar trebled in four months. Between 1920 and 1933, the price of crude rubber fluctuated between four cents a pound and twenty-five times that amount and was on several occasions doubled or halved in the space of a few months."¹ In agricultural crops produced annually there were two main types of price change, those which took place within a single year² and those which corresponded to the general cyclical movement in economic activity.

In most of the commodity markets these cyclical price changes did not take place about any healthy "norm", but in markets that had suffered from chronic, deep-seated maladjustments at least since the first world war. These violent price changes must be considered not as the underlying causes of the breakdown of the international economic system but rather as manifestations of the faulty working of that system and symptoms of the structural disequilibria which did so much to bring about the final collapse.

The violent falls in agricultural export prices of which illustrations have been cited above strained the balances of payments of the raw material countries which were for the most part debtors on capital account. The burden of their existing debt service was thereby increased and had to be paid out of a smaller supply of foreign exchange. At the same time the current supply of loans which they had used in part to pay for the imported goods they required suddenly ceased. Quickly these debtor countries were forced to adopt policies of quantitative restriction of imports and of exchange control.

The reasons for these wide and rapid fluctuations vary with the characteristics of the markets for the various commodities. In the wheat, jute, coffee, sugar and cotton markets there is a large number of individual sellers and conditions on the supply side approximate those of pure competition. The world copper market, on the other hand, is supplied by relatively few sellers. In the markets for rubber and tin the situation is complicated by the fact that there are some large and powerful units, owned by

¹ LEAGUE OF NATIONS: *The Transition from War to Peace Economy*, *op. cit.*, pp. 23-4.

² If the minimum and maximum monthly average price of wheat, sugar, coffee, cotton, and wool are expressed as percentages of the annual average price, the average annual percentage fluctuation over the twenty-year period was 41 per cent., in the case of wheat, 44 in that of sugar, 28 in coffee, 34 in cotton and 35 in wool.

Western capital, and a great many small Native producers. Zinc and lead and some copper are produced under conditions of joint supply. Effective demand for some products tends to fluctuate more than for others, and for different reasons. The market for rubber, tin, zinc and lead is more sensitive to cyclical movements than that for wheat and sugar, partly because they are used in quantities that are small as compared with the value of the finished goods. In addition some of the upward swings of prices in the metals markets are directly traceable to increased demand for rearmament purposes. The copper market is highly monopsonistic (subject to monopoly demand), and there are relatively few large buyers for some of the other products mentioned.

All the commodities just mentioned have, at least for part of the inter-war period, been subject to regulation. The copper, lead and zinc markets have been controlled by private producers' organisations; coffee and jute have been regulated by national governments; tin, sugar and wheat were controlled by organisations in which several governments were represented, while rubber has been subject first to private and then to public international control. The distinction between private and government control is perhaps not as crucial as it might appear since the government bodies regulating the various commodity markets have in fact been dominated by producers' organisations or have acted largely in the interests of the producers.

These commodity controls were instituted in periods of market dislocation. Especially after the last war there was widespread excess capacity which was sometimes aggravated by the rapid and ephemeral reconstruction boom. Some control schemes, for example the Stevenson Rubber Control Scheme and the second copper cartel (Copper Exporters, Inc.), seem to have sought high prices more than others; and in fact all seem to have paid too much attention to price and production regulation narrowly conceived and too little attention to the basic causes of the disequilibria in prices and output. They attempted in general to relieve the situation by restricting the production of all, or as many as possible, of the existing producers, and by maintaining prices, rather than by eliminating the high-cost production and expanding the output of the efficient low-cost producers. Not one of them made a determined attack on the root problem of excess capacity.¹

The causes of this chronic maladjustment were various. The war of 1914-18 had led to a great expansion of wheat and sugar production outside Europe. When no extensive policy of agricul-

¹ Individual control schemes could not, of course, stimulate world effective demand.

tural adaptation was undertaken and the wheat and sugar-beet fields of Europe came again into production, persistent surpluses appeared, glutting the markets. Improved technology, the substitution of tractor for animal power, and biological improvement bringing cold- and rust-resistant wheats and highly productive strains of sugar-cane changed the competitive positions of the various producers. Cotton production outside the United States expanded rapidly in the years after the war and this was later aided by the price-supporting actions of the United States Government. The war demand for metals had brought—with a lag—the development of new production areas. But producers were unwilling to see the inflated capital values of their older mines decline and struggled to keep them in production. Sometimes, too, new methods of low-cost production required a steady volume of output of a product, like copper, for which demand was notoriously erratic. The war boom in rubber had led to extensive plantings. When the first slump came, the Stevenson control scheme was instituted to stabilise, in fact to raise, prices and succeeded so well in its immediate goal that it led to further plantings and increased disequilibrium.

Neither free-market conditions nor regulation by producer groups brought a stable adjustment of supply to demand. Clearly there is no universal cure. The causes of disequilibrium are many though the symptoms may be the same. The smoothing of seasonal and short-period price fluctuations must be treated differently from the problem of assisting adaptation to long-run changes in the productive structure. Price movements which are associated with monopoly are in still another category. If stable international economic relations are to be achieved in the post-war world, a satisfactory solution must be sought for these problems.

The present war, again, has caused great changes in the structure and mechanisms of international economic relations. The whole complex structure of private trade, finance, investment, shipping, insurance and industrial agreements has been affected and new mechanisms of intergovernmental co-operation have grown up. It would be inaccurate to say, however, that with the outbreak of war a system of international economic organisation based upon government decisions replaced one in which the motive force had been provided by the decisions of private individuals. For years before the outbreak of military hostilities there had in fact been no international economic system but only the shattered remnants of one which had barely survived the shock of the first world war and had finally collapsed in the "great depression". What has developed since the war is not a new system of international economic organisation but a series of *ad hoc* arrangements among

the various members of the United Nations. This is not to say that these wartime organisations will not be important in the future. They will be influential in shaping the post-war world if only because they will provide the only instruments of immediate action in the crucial period after the fighting ends. The most important of the wartime organisations, at least for the time being, is the exchange of weapons, ammunition, food and industrial equipment under the mutual aid (lend-lease) agreements.¹ This new war trade already accounts for well over half the trade of the United States and will continue to increase as private trade contracts still further. Perhaps more significant for the future, however, is the series of agreements whereby governments have contracted to purchase the entire production of strategic crops and materials in certain countries. These operations have been carried out in some instances by local governments. The United Kingdom Commodity Corporation and certain United States agencies such as the Reconstruction Finance Corporation and its subsidiaries, the Metals Reserves Corporation and the Rubber Reserves Corporation, have also been active.² Exchange controls and import and export licensing systems, vital weapons in the struggle to obtain imports essential to maintain and increase a country's war potential and to prevent the enemy from procuring from abroad the products he requires, have now spread everywhere. Action has now been taken in the United States to co-ordinate the foreign economic activities of Government departments and place them under the leadership of the State Department.³

Even before the war the organised capital market had lost much of its earlier importance in mobilising funds available for investment abroad. Portfolio investment had remained at an extraordinarily low level since the depression of 1929-32 and what foreign lending was undertaken took the form either of intergovernmental lending, often largely for political purposes, or of "direct" investments, such as the establishment of branch plants, by great industrial corporations. As long-term lending declined, the granting of medium-term credits, often backed by a government guarantee, became a commoner method of financing trade in capital goods. During the war virtually all foreign lending has been done by governments. In the United States these financial operations, which

¹ Cf. J. B. CONDLIFFE: "The Economic Implications of Lend-Lease", in *Foreign Affairs*, Apr. 1943.

² A new subsidiary, the Petroleum Reserves Corporation, has been set up more recently "to acquire petroleum, petroleum products, and petroleum reserves outside the Continental United States" (*New York Times*, 2 July 1943, p. 24).

³ *Department of State Bulletin*, 27 July 1943, p. 32.

have sometimes taken the form of stabilisation loans, sometimes of loans for development, and which have often been granted to increase the production of strategic materials, have been carried out by the Treasury, the Export-Import Bank, the Reconstruction Finance Corporation and its subsidiaries, and by the Office of Economic Warfare.

Shipping is now rigidly controlled—and often moved—by governments. The Combined Shipping Adjustment Board co-ordinates the shipping policies of the British Ministry of War Transport, the American War Shipping Administration and the other United Nations merchant fleets chartered to them. Ships move in great convoys along unaccustomed routes carrying and distributing goods which have been allocated to their various destinations mainly by the Office of Lend-Lease Administration, the Combined Food Board, the Combined Raw Materials Board and the Munitions Assignment Board.

A large number of international industrial agreements, some with government support but most private, existed before the war, often between business men of the Axis countries and those of the various United Nations. The majority of these, which had laid increasing emphasis on the allocation of export markets among their members, have been dissolved or disrupted by the war. The charge that in some cases these cartel agreements have in fact hampered American production of vital war materials has called forth much criticism. The international allocation of markets, however, has not disappeared with these agreements. The export market for various products is now divided into areas which are allocated to the industrial enterprises of the two countries by agreements between the British Ministry of Economic Warfare and the United States Office of Economic Warfare.

Not only has the war resulted in the growth of many new types of international commercial, financial and technical institutions, it has also brought important shifts in the distribution of capital and equipment throughout the world. The pre-war pattern of world trade was set largely by the distribution of past international investments. The most significant of the wartime changes in the ownership of foreign resources has been the decline in British overseas investments which, especially before the passage of the Lend-Lease Act, were sold to pay for the costs of war. If Great Britain is to maintain or improve its pre-war level of living, it must export even more than before, since it must now pay for a greater proportion of its imported products by utilising receipts from current exports. But this is not all. Since countries did not settle their claims on one another directly but through a complicated system

of roundabout trading relationships¹, these changes in the international distribution of foreign assets will affect not only the balances of payments of those countries whose holdings have declined, but also the balances of payments of the countries through which the claims were transferred. Adaptation to the post-war situation will therefore involve a very large number of changes in the pattern of world trade. This will not be easy. A decline in the overseas holdings of a great creditor country will reduce the amount of debt service payments which have to be transferred, within the trading system, but it will not itself change the amount or type of goods needed by those countries through which the debt service payments were formerly transferred.²

It seems obvious that the pattern of international trade after the war will be very different from that of the pre-war trade and still more different from the competitive multilateral trade of textbook theory. National economic systems are no longer meshed into a stable international equilibrium. A great variety of agreements, bilateral and multilateral, public and private, regulate the interchange of important products, but do so often with little reference to comparative costs. Cartels and commodity agreements have enabled trade to be organised for so many products on a basis of monopoly or limited competition that the adjustments of prices and production needed to fit national economies into a world market have been obstructed since the last war. The pressure of adaptation has been concentrated on a constantly narrowing segment of trade and therefore has caused violent price fluctuations. A second world war has added even greater dislocation and bids fair to produce a new crop of cartels and commodity agreements. In the circumstances it seems very probable that the restoration of freer multilateral trade may prove a very difficult and complicated operation. And yet the need for expanding trade was never clearer than it is now.

C. THE CASE FOR FREER TRADE

Up to this point the argument has been concerned with the difficulties likely to be encountered in any attempt to restore a smoothly working system of international economic relations. These difficulties arise from two main sources. In the first place,

¹ Cf. LEAGUE OF NATIONS: *The Network of World Trade* (Geneva, 1942).

² "The lessening of the need for multilateral trade through structural changes should not be overrated. It is obvious, for example, that while a decline in British oversea investments will reduce the debt service payments which exercised an important influence in maintaining the multilateral trading system, it will not alter the commodity requirements of the countries through which such payments used to be transferred." LEAGUE OF NATIONS, *op. cit.*, p. 96.

the objectives of a people's peace lay stress on social considerations such as full employment, social security and economic development which may formerly have been regarded as desirable by-products of economic activity, but have now come to rank as prime objectives of policy. It is clear that these objectives must be approached primarily in the sphere of national action and by using the instruments of national government. Little has been done as yet to develop international machinery by which policies directed to their achievement might be pursued for the world as a whole. As will be argued later, there is a possibility of creating international organs primarily for the co-ordination and regulation of international payments. The objectives of social policy must be pursued nationally; but they may be facilitated and their economic and financial consequences may be prevented from wrecking international equilibrium, if they can be cleared through international consultation.

In the second place the changed and changing character of economic activity has gone far to invalidate the assumptions upon which the *laissez faire* case for free trade has always been based. Production is not now organised simply in a great series of relatively small units no one of which is in a position to exert great influence on the market. There still remain segments of production and trade in which competition is active; but industrial manufacture tends more and more to be organised in large units, each of which controls a significant part of the production of commodities catering for specialised markets. The emergence in recent years of a strong public opinion against exposing wage earners to unemployment and wage reductions in a period of crisis adjustment has further concentrated the necessity for cost adjustment upon the narrowing segment of economic activity where competitive forces remain powerful. The result has been great pressure upon the prices of raw materials, which have fluctuated violently and brought hardship to the less organised producers. They have striven to protect themselves by organising, or pressing their governments to organise, national and international commodity controls which in the recent past have invariably restricted production and trade.

Both of these sets of difficulties arising from the emphasis on social objectives and from the imperfect working of competition have reinforced the trend to economic nationalism. This trend was always supported by those economic groups in every country that were exposed to the necessity of making adaptations to meet foreign competition, which has been both more erratic and more destructive since price fluctuations became so violent. National action has come to be advocated also by those in every country who are concerned with protecting the wage earners from the social

consequences of violent fluctuations of employment and living levels. Indeed one of the tragedies of our time has been the growing conflict between social reform and internationalism. In the nineteenth century liberalism and reform movements were international in their outlook. The great protagonists of free trade argued their case largely on international grounds, as a means of realising both peace and prosperity for all peoples.

The *laissez faire* case for free trade as a means of securing economic progress and prosperity through peaceful trade depended essentially upon the belief that free competition could be relied upon to bring about an equitable, stable and effective use of the world's resources for the benefit of consumers all over the world. Now that the world market has been broken up into a series of disconnected and independent national markets it is clear that the case for international trade must be made on other grounds than those of competitive equity and efficiency. As Professor Viner has recently pointed out, the weaknesses of State trading monopolies may be criticised by comparing them with an ideal, smoothly-functioning competitive world market; but if that market does not exist the case for and against State trading must be reconsidered.¹ Whether trade is organised by private or by public enterprise, however, there is a strong case for expanding the exchange of goods and services across national frontiers. In default of that case being accepted by public opinion, the trend to national self-sufficiency will be strengthened as each government is pressed by a combination of interested producers and social reformers to organise full employment, social security and development within its own borders.

The real alternatives at the present time, therefore, are on the one hand to accept these pressures for national self-sufficiency as a necessary condition of achieving an equitable and stable organisation of economic activity, or, on the other hand, to devise instruments of international economic co-operation which will enable governments to pursue their national policies without sacrificing the gains of international specialisation. Neither the restoration of free competition nor centralised international planning is likely to be practical at the close of the war. The international machinery for international planning of this type does not exist and cannot be improvised. The restoration of free competition would quickly result in such violent fluctuations of prices and employment as would force resort once again to economic nationalism.

It seems obvious that, in default of international co-ordinating

¹ LEAGUE OF NATIONS: *Trade Relations between Free-Market and Controlled Economies*, by Jacob VINER (Geneva, 1943), pp. 82 *et seq.*

instruments, greater national or regional self-sufficiency would be not only practicable, but inevitable. Within national boundaries, or more probably within regional or imperial units, it is perfectly possible—at least temporarily—to organise an equitable and reasonably stable system of production and distribution. To do so would involve sacrificing a good part of the gains from international trade and from international capital movements. Specialised production, utilising natural resources that are abundant enough to provide a basis for profitable exports, would need to be curtailed. Labour and capital would need to be transferred from these strong industries to others less advantageous. In the same way there would be a stoppage of imports bought advantageously abroad from areas where they can be produced cheaply as a result of specialised production under favourable conditions. These imports would need to be replaced by national production at a higher real cost in labour time. For such imports, mainly of raw materials, and especially mineral raw materials, as are indispensable, bilateral barter arrangements would need to be made. This was in fact one of the most characteristic features of the economic nationalism which preceded the present war. The concentration of international trade upon the securing of essential raw materials is one of the most disconcerting aspects of modern mercantilism since it accentuates national rivalries and turns trade into a form of economic warfare rather than a mutually beneficial exchange of commodities and services.

It does not need much reflection to realise that such developments, while they may for a time achieve a certain degree of national stability and equitable income distribution, inevitably involve lowered efficiency and reduced levels of living. This has been abundantly demonstrated in recent experience, in the totalitarian countries, and also in the democratic countries which have attempted to gain a greater degree of national self-sufficiency. The struggle for self-sufficiency also enhances the probability of war.

It involves a much greater measure of government regulation of both external and internal economic activity. National policies aimed at full employment and social security pursued on a basis of self-sufficiency, in practice if not always in theory, raise production costs. In order to pursue such policies credit must be kept abundant and cheap. Credit policy may need to be supplemented by government measures to force credit into circulation, for example by public works expenditures. The result of such measures, as experience has shown, is to raise the level of costs and prices in the country concerned. Imports are attracted and exports diminished, while liquid capital is exported. Strain on the balance of payments causes resort to import controls and often to export

subsidies. The allocation of import licences, either directly or by the priorities granted to importers in securing foreign exchange, determines what kind of goods can be imported and therefore puts a powerful weapon in the hands of governments for the control of domestic industry. The totalitarian governments made effective use of this weapon to compel industrialists to serve the needs of the State. The information obtained in the course of exchange control and import licensing was an important instrument of economic espionage, enabling the governments to check subversive activities.

One of the strong arguments for freer trade, therefore, is the political argument that it limits the power of State officials to regulate domestic economic activity as a means of preparing war. It needs only one great power to begin an autarkic programme of war preparations. Given international organs through which national payments can be cleared, so that intolerable strains are not imposed on the national balances of payments, it is desirable to expose national production to the competitive tests of efficiency imposed by the possibility of import competition, and at the same time to safeguard the national economies against militarist perversion.

There are strong economic arguments also for freer trade. They may be summarised first as those which flow from the advantages of specialisation. These are the same arguments as form the basis for the classical free-trade case. They are reinforced at the present time by a further set of arguments derived from the recent technical developments of modern large-scale industry. Finally, there is a new series of considerations that flow from the desirability of working towards the social objectives of a people's peace. These three sets of arguments will be recapitulated in the pages immediately following, the first somewhat briefly and categorically, the two latter at more length.

The classical argument for free international trade rests upon the simple axiom that it pays to specialise. In the language of economists this truism becomes the theory of comparative costs or advantages, the theory that if competitive forces were allowed free play, countries would come to concentrate their economic activities upon the production of goods for which they had specific economic advantages, such as abundant raw materials, skilled labour, favourable climatic conditions, or even established industrial organisation.

This does not mean that each country would specialise narrowly. In some exceptional cases, where the country was small and had a special advantage in a particular form of production—as Cuba,

for example, has in sugar—monoculture might develop. But in the generality of cases the great bulk of domestic consumption would continue to be met by domestic production. An excellent statement of this fact is contained in the evidence presented recently to the Ways and Means Committee of the United States House of Representatives by Dr. J. Raymond Walsh, Research Director of the Congress of Industrial Organizations.¹ Appearing as a witness in support of the renewal of the Reciprocal Trade Agreements Act, Dr. Walsh analysed the employment statistics of the United States in considerable detail. He was able to demonstrate that the great majority of workers were employed in occupations which could not be affected by import competition. Not more than two to three million worked in occupations effectively sheltered by tariff protection, and this number is probably less than those whose occupations depend directly on the export market. It is obvious that personal services, transport and communication, retailing, local building and similar services must be performed on the spot. These offer by far the greatest and most elastic opportunities of employment in any country.

It is clear also that the fear, often expressed, that any lowering of the barriers to imports will cause a wholesale flooding of the markets of the receiving country are not only exaggerated, but inherently impossible of fulfillment. There are cases, it is true, where, in special circumstances and for political reasons, there may occur a concentrated drive of cheap imports. Thus, in the years immediately following the depreciation of the yen in 1931, Japanese manufactured goods of many kinds poured into such markets as the Netherlands Indies, China and the British colonies in Asia and Africa on terms that defied competition. In much the same way Germany got control of the markets of central and eastern Europe between 1935 and 1939.² These, however, are instances not of free, but of controlled trade used as an instrument of national power.

In the same way there may be temporary concentrations of cheap imports of particular commodities dumped on certain markets at prices disconcerting to the local producers. Cheap Japanese cottons, pencils, and even electric lamps, entered many national markets, even over high tariffs, after 1931. Upon analysis, however,

¹ U.S. Congress, House Committee on Ways and Means, Extension of Reciprocal Trade Agreements Act, 1943. *Hearings*, Unrevised committee print, Pt. 9, 23 April 1943, pp. 1054-1057.

² Cf. the forthcoming volume by Albert O. Hirschman on trade as an instrument of power politics, to be published shortly by the University of California Press.

the quantities actually exported in this way turn out to be very small in relation to local production, the circumstances of their importation were temporary, and the initial success wore off as consumers discovered that the quality was as low as the price. In any case the statistics show that the increased exports were paralleled by increased imports.

There is in fact no possibility of one country underselling others in all lines of trade. Trade is a two-way street. Imports are, and must be, paid for by exports. There may be a temporary disturbance of local industries by increased imports. It is obvious that undue fluctuations of imports are to be avoided. No business can be organised successfully if it is likely to be faced by a flood of suddenly cheapened imports. But two things must be said on this point. First, the best way to check sudden fluctuations of import prices is to create conditions—and international institutions—in which exchange depreciation and violent price fluctuations may be minimised. And, second, that tariffs or other import barriers are no protection against such fluctuations unless they are so high as to shut trade out at all times.

It is perhaps necessary to add that the so-called "cheap labour" argument against freer trade is a variant form of the fallacy just pointed out. It depends essentially upon the belief that a country with low labour standards can undersell another whose labour standards are higher. The elementary point must first be made that wages per hour or per day are no indication of labour cost per unit of production. The automobile workers of the United States have wage rates higher than automobile workers in any other country; but automobile production costs are lower, and labour forms a smaller proportion of total production costs, in the United States than anywhere else. The fact is that low wages are often a sign not of efficient, but of inefficient, production and in most industries low wages indicate inability, rather than ability, to compete effectively in foreign markets.

It is of course true that there are some industries in which labour cost is a high proportion of the total costs of production and in which hand skills are preferable to machine efficiency. Hand embroideries offer a good example of such an industry. Cheapness of labour cost per hour is reflected in labour cost per unit of production and in total cost of production. It is unlikely that machine products can compete successfully in such markets. The most effective method of dealing with this situation, however, is not to debar consumers from the cheapness and satisfaction to be gained from such imports, but to raise living standards by direct action in the countries of cheap labour. Trade union organisation and properly

enforced legislation to improve working conditions and wage levels are most likely to be successful when the industry is reasonably prosperous. If it is thrown into depression by the closing of its export markets, there is little chance of achieving a levelling up of labour standards.

In any case trade must be maintained on a two-way basis if living standards are to be maintained where they are now high. Not only is employment in the industrial countries dependent upon export markets in addition to local demands; but a substantial part of the improvement that has taken place in living standards has come from ability to import a variety of foods, textiles, minerals and manufactures for personal use from wherever they are best made. Thus the greatly improved diet of European peoples in the nineteenth century was made possible by massive imports first of cheap bread grains, then of meat, butter and cheese, and still later of fruits, and especially citrus fruits, from overseas. Tropical and sub-tropical products also—sugar, coffee, rice, sago, cocoa, tea—have added variety. The reversal of this process was very marked as economic warfare preceded actual hostilities and whole nations were forced back from a varied diet towards reliance largely on domestic cereals and potatoes. If large populations must be fed from domestic production, it becomes uneconomical to feed cereals to animals and even to rely upon the more desired cereals such as wheat for the main supply of bread grains.

In the same way the great flocks of sheep in the newly opened grazing countries made wool more readily available. Silk also was used by the great mass of the people, as cotton had become available to them earlier as a result of international trade. The first attempts at self-sufficiency in Europe cut down supplies of wool and cotton and silk. Manufactured fibres replaced them and were improved in quality, but costs were relatively high and abundance as well as variety was reduced. There is no doubt that years of warfare, following these trade restrictions, have lowered clothing standards and that trade must be reopened to restore them to their pre-war levels.

An even greater reduction of consumption has occurred in the less elementary necessities and luxuries. If the amenities of life are to be restored there will need to be a great revival of trade in these articles after the war.

If one turns to consider the second set of arguments based upon the technical development of modern industry, the case for international specialisation and interchange is strongly reinforced. There is a tendency in some quarters to argue that scientific research and its industrial application will reduce the necessity for inter-

national trade.¹ It is argued that electrical power and gasoline will tend to replace coal, that new light metals and plastics will increasingly take the place of the older metals—iron, lead, tin, copper, zinc—that synthetic chemistry will produce effective substitutes for natural fibres, for rubber, for petroleum, for vegetable oils, and even foods, that industrial raw materials will be drawn from the farm rather than the mine.

No-one is likely to underestimate the great changes in industrial production that have already resulted from scientific research; or to doubt that even greater changes may confidently be expected. The organisation of scientific research, and especially the development of great industrial laboratories exploiting, and at the same time contributing to, new scientific discoveries, is a new and powerful instrument of revolutionary change the full possibilities of which cannot at present be foreseen. It may be accepted without much question that new sources of power, new methods of production and new products are likely to appear and that the pace of development is likely to accelerate. It may also be accepted that many cases will occur where these changes will destroy the necessity for particular types of international trade. This has often happened in the past, though the pace of change was much slower than it is now or is likely to be in the future. Haber's process for the fixation of nitrogen from the air dealt a heavy blow at the Chilean trade in nitrates. The diffusion of improved methods for treating phosphates, coupled with the emergence of cartels in the chemical industry, caused the trade in superphosphates practically to disappear. The introduction of oil-burning and motor vessels took away much of the bunker trade in coal as the introduction of new dyes destroyed the indigo trade and new fibres ruined the jute trade. These are but striking examples of a continuous process of change induced by scientific progress.

In the past such changes have not reduced but have increased the aggregate of international trade. There is good reason to believe that what has been true in the past will be true also in the future. Unless it can be shown that scientific discovery has reached a point which will revolutionise the whole industrial system, the experience of the past is useful as a guide to the future. There are, moreover, many definite indications that the new industrial techniques are likely to cause increased need for trade.

The first fact to be noted is that, despite the increasing use of such new metals as aluminium and magnesium, the consumption

¹ O. W. WILCOX: *Nations Can Live At Home* (New York, 1935); Lancelot HOGGEN: *Dangerous Thoughts* (New York, 1940), p. 19; Lewis COREY: *The Unfinished Task: Economic Reconstruction for Democracy* (New York, 1942).

of the older metals is still very much greater than that of the new. Their consumption continues to increase cumulatively. Högböm indeed has been able to calculate what he calls the doubling periods—the number of years within which consumption doubles and redoubles.¹ Except for the interruptions caused by recurrent war, these periods have been surprisingly regular. Modern industry needs more and more iron, coal, tin, lead, copper, and zinc. The most conveniently placed reserves of these basic metals become progressively exhausted. European sources, for example of copper, have been exploited for centuries and the search for new deposits must now be pushed further and further afield. Even iron ore must be imported to the older industrial countries such as Britain and Germany. The highest-grade ores of the Mesabi Range in the United States will be exhausted in a period estimated at 15 years at the war rate of consumption or 30 years at the pre-war rate. Petroleum is a good example of the rapid progressive exhaustion of reserves placed conveniently near to the great centres of consumption and of the consequent necessity for discovering new sources whose exploitation increases international trade. There is very ample statistical evidence for the conclusion drawn from the most recent survey of world minerals that interdependence and the need for international trade persists, despite the development of new metals.²

It is clear that the new processes of industry also create a need for trade to supply new materials, as well as to replenish supplies of the basic metals. In some instances the new processes accelerate the exhaustion of already scarce materials. Thus synthetic rubber manufactured from coal or petroleum may accentuate the drain on national reserves. New fibres create a demand for imported lumber. The increased use of hydroelectric energy causes a demand both for heavy machinery and for greatly increased quantities of copper.

Moreover the new manufactures use a very long list of subsidiary materials many of which must be imported to the industrial countries. The alloy minerals used for making special steels are a good illustration. They rank high among the strategic materials for which great nations are willing to exert all their financial, and even military strength. But a great variety of other products enter into the making of an automobile or a telephone system—lac, kauri gum, cobalt, carnauba wax, and the like. One of the

¹ Ivar HÖGBÖM: "Development of World Production of Raw Materials", Annex to LEAGUE OF NATIONS: *Report of the Committee for the Study of the Problem of Raw Materials* (Geneva, 1937), p. 38.

² C. K. LEITH, J. W. FURNESS and Cleona LEWIS: *World Minerals and World Peace* (Brookings Institution, Washington, D. C., 1943), p. 101.

most characteristic developments of our industrial age therefore has been the reaching out of great industrial enterprises to secure sources of raw materials in foreign countries. The necessity to do so has indeed been a factor in the development of these giant concerns. Rubber plantations, oil reserves, tin deposits, forests, mines, even land capable of specialised farm production, are among the major objects of direct foreign investment.

International trade in the aggregate is increased by these developments; but its character changes. The volume of commodities interchanged across national boundaries has been increasing cumulatively ever since the Industrial Revolution. Great wars and depressions interrupt the trend, but it continues when the emergency is past. There seems no reason to doubt that the trend will continue since it is rooted in the technical nature of modern industrial processes.

Finally attention must be drawn to the fact—obvious as soon as it is stated—that the social objectives set out as those of a people's peace cannot be achieved unless there is a reopening of the channels of trade. An approximation to full employment in the great industrial countries, such as the United States and the United Kingdom, presupposes not only the maintenance of their national incomes and purchasing power in their domestic markets; but an expanding volume of international trade. These are the great consumers of raw materials. If their industrial activity is to be maintained at a high level, they will need to absorb large quantities of imported ores, fibres, and food. They will need Chilean and African copper, Australian and Argentine wool, Malayan and Bolivian tin. Such requirements will enable the raw material exporting countries to maintain employment and at the same time to absorb a proportion of the industrial exports of the manufacturing countries.

There is a particular reason why at the close of a great war the channels of trade need to be reopened. The needs of war economy stimulate the engineering industries and repress those catering for the consumer markets. Coal, petroleum, electrical energy, aluminium, machine tools, steel, automotive vehicles, ship construction, aircraft, are the typical war industries where expansion is greatest. When the war demands cease or are tapered off abruptly, there will be excess producing capacity. Moreover, new capacity will have been added by the accelerated industrial development of such countries as Brazil, India, and Australia. Unless new outlets can be found for the products of heavy industry, the process of reconversion from war to peace production will be greatly accentuated.

A good example is that of rubber. To meet war demands there

has been remarkable development of synthetic production in all the great manufacturing countries which formerly imported natural rubber, mainly from the tropical plantations of southeastern Asia. There has also been an attempt, often costly, to expand the production of natural rubber in many areas of Latin America. At the close of the war, the impaired productivity of the Asiatic plantations, coupled with the accumulation of civilian demands, may for a time make it possible to absorb the total supply of both natural and synthetic rubber; but it will probably not be long before surplus stocks begin to accumulate again. If this happens, there will be demands to restrict production and trade—to impose tariffs protecting the new synthetic industries and to negotiate international agreements controlling the exports, if not the production, of the natural rubber. The necessity for such restrictions will be lessened if consumption can be kept at high levels in the great markets offered by the industrial countries and if at the same time the economic development of hitherto backward areas should open up new markets. There is reason to believe that a considerable demand might be created in China, for example, if the new roads built during the war could be used by trucks employed at first in combating famine (and inflation), by distributing local food supplies more evenly, and, later, in the normal development of trade.

Full employment in the industrial countries and economic development in the countries which have hitherto lacked modern equipment are two aspects of the same objective—improved living standards. There is nothing particularly new in this objective. The close connection between foreign investment, foreign trade and expanding employment yielding higher living standards was amply demonstrated throughout the nineteenth century. The manufacturing countries gain by investing part of their production in improving the transport and local manufactures of less developed areas. It is true that they cannot hope to continue to export the simpler manufactures like cotton goods. They must be prepared to rely upon their leadership in research and industrial methods, so that newly developing areas take over the simpler forms of manufacture but continue to import the specialised products of the most advanced countries. The economic history of the last two centuries provides irrefutable evidence that the spread of industrial development increases trade in the aggregate. Interchange was greatest and most profitable between the fully industrialised countries such as Britain, Germany, and the United States. If the processes of industrialisation are extended more widely, there is every reason to expect an even greater development of international trade. There is little market for automobiles, radios, refrigerators

and typewriters in countries with low living standards and low purchasing power. The great industrial countries, however, must accept imports in payment for their exports and they must not attempt to protect their existing industrial structure from the adaptations necessary to conform to the changing pattern of world trade. If they could bring themselves to rely upon the competitive power of their technically specialised industries, the result might well be an advance in living standards all over the world, greater than at any previous period in history.

It would seem to be overwhelmingly clear that an economy of abundance rather than restriction, of scientific progress rather than protection of interests, must be accompanied by a great increase in world trade. It is not so clear that this increase can be organised successfully, still less maintained, upon a basis of competitive equilibrium. There are commodities, such as wheat, where many of the conditions of a competitive market exist. There are numerous producers and numerous consumers, no group of whom on either side can effectively control the market. But even these commodities reach the international markets through dealers whose operations are more typical of imperfect competition than of pure competition. These commodities have suffered such great fluctuations of prices in recent years—usually because of extraneous causes such as geographical shifts in production areas, tariffs, exchange depreciations, and other unilateral State interventions—that the more important of them have been subjected to international regulation. A very large number of the less important commodities of this type have suffered such severe fluctuations that international trade in them has practically disappeared.

On the other hand a great and growing proportion of the manufactured commodities which enter into international trade are subject to some degree of monopolistic control. The proportion of international trade which is actually regulated by overt agreement is not very high—it may perhaps be as high as 17 per cent.¹ If, however, one adds the commodities influenced by patents, by brands supported by advertising and by other forms of monopolistic competition or simply price leadership, the proportion of international trade subject to some form of market control may be as high as 40 per cent.

There is competition over a great range of this controlled trade; but it is not the competition of the text books. The automobile industry, for example, is competitive in large measure. Within a given price range different makes of automobile compete, but they

¹ Estimate based on calculations by Dr. Peter G. Franck at the University of California.

do so through exclusive distributors within the national market and increasingly by agreements, quotas, or market demarcation, in foreign areas. There is a strong tendency for these manufactures to become standardised, so that the finished product, though complex, becomes in the eyes of the consumer an almost homogeneous article. When this happens agreement among competing manufacturers is the natural next step to take. Such agreements are even more likely in the competition for foreign than for national markets in a period of active State intervention. International cartels have therefore multiplied.

There seems little likelihood that effective government action can be taken to restore atomistic competition either in national or in international markets. The tendency to monopolistic competition and to cartel agreements is firmly rooted in the technical processes of modern industry. As the influence of scientific research increases cumulatively the trend towards at least partial monopoly is bound to increase. The trade that will be restored when this war ends seems likely, therefore, to contain much larger elements of industrial monopoly on the one hand and of State control and regulation on the other. This likelihood reinforces the argument for international institutions competent to regulate, or at least give publicity to, the operation of private industrial agreements. It also suggests the probability that some part of international trade will consist of State-operated or State-regulated exchanges. Where, as in the U.S.S.R., foreign trade is a State monopoly, these exchanges will constitute the only means of trading. Over a large part of Europe, at least for a time, the newly restored governments or the occupying authorities will probably control a large part of the trade. The importation of equipment to modernise China may go through public corporations which are in fact State trading monopolies.

Whether such State trading will be consolidated to provide the main avenue of international exchanges for the future, or whether it will prove to be a transitional device to tide over the period of economic strain at the end of the war, is a question that cannot be answered yet. There will be strong pressures for the restoration of private trading enterprise and a good case can be made for such restoration on the ground of technical efficiency and risk taking. But it is clear that the private enterprise of the future is likely to be large-scale enterprise, with a monopolistic tendency. There is obvious need, therefore, to devise international institutions capable of registering, and, if need be, controlling, the development of international trade and investment.

IV. THE TRANSITION FROM WAR TO PEACE ECONOMY¹

Long-range post-war policies aiming at higher living standards, full employment, social security, economic development and international collaboration must be considered in the context of military and economic demobilisation. The war has wrought great changes, both in the national economies of the warring countries themselves and in their international economic relationships. Some of these changes, such as the maintenance of huge armed forces and war industries, may be only temporary; but others, such as the accelerated industrial development in some countries, are likely to remain. Before considering such problems of long-range economic policy as the maintenance of a high and steady level of employment, the industrialisation of undeveloped countries and the reorganisation of international economic relations, it is therefore well to touch briefly on such developments as can now be foreseen as likely to arise in the immediate post-war period.

The moment of economic and military demobilisation may not come everywhere at the same time. Should "Fortress Europe" crumble before the war in the Far East reaches its climax, some measure of demobilisation and conversion may be necessary among the United Nations before the end of all hostilities. The Pacific war has been one of ships and long-range planes rather than of massed land armies and short-range heavy bombers. Some materiel, such as heavy bombers with a comparatively short range, may not be suitable for the war against Japan. The end of the Nazi submarine menace might render further construction of escort vessels unnecessary. If the liberation of the occupied countries should proceed gradually, the problems of relief and rehabilitation will be much simplified. One cannot count on such hypothetical events in any programme designed to meet the problems of the transition period, but any such programme must be sufficiently flexible to be adaptable to changes of this sort.

¹ For a much fuller discussion of problems of the transition period, see LEAGUE OF NATIONS: *The Transition from War to Peace Economy*, *op. cit.*; J. B. CONDLIFFE: *Agenda for a Postwar World* (New York, 1942); *The Political Economy of Welfare* (Commission to Study the Organization of Peace, New York, 1943).

A. TOTAL WAR AND THE DOMESTIC ECONOMY

The major countries of the United Nations are now devoting well over 50 per cent. of their resources to war purposes.¹ When peace comes they will find themselves with very large armed forces, great and well-equipped industrial plant facilities, and highly trained labour forces. A large part of the former will be "unemployed", while many of the factories and much of the labour and equipment will be producing goods that are no longer required. More will be producing uneconomically. Many plants, among them aircraft factories, shipyards, powder mills, and shell-filling plants, will have to cease production although some may be retained ready for use, at least for a time. Some of the industrial changes brought about by the war, such as the spread of steel-making to the west and south of the United States, may prove to be permanent. Parts of the industrial transformation brought about by the impact of war in countries like Australia, now manufacturing aeroplanes, anti-aircraft guns, Bren guns, Owen submachine guns, and other weapons of war, and India, now producing much more steel than ever before, will doubtless remain, both for economic and for strategic reasons. In addition to highly trained labour forces, the industrial countries will also possess machine-tool industries well-equipped to make the required process of retooling both rapid and efficient. Some industries in Great Britain which have been "concentrated"², such as the cotton textile industry, should probably not be restored to their pre-war condition. In some countries, notably Great Britain, agricultural production capacity may have to be reduced, while in others, like the United States, the war will have accelerated a movement out of agriculture which ought not to be reversed.

¹ Dr. M. Kalecki has estimated the British industrial war effort in terms of manpower as follows: "As we estimated the insured labour employed directly and indirectly in armaments in 1938 at 0.6 million, the total volume of insured labour employed in the war sector in 1941 may be estimated at about 7.5 million workers. Insured workers in employment in 1938 were given as 13.1 million and the increase in the volume of insured labour in 1941 has been estimated at 1.5 million '1938 workers'. The total volume of insured workers in 1941 may then be estimated at about 14.5 million '1938 workers'. It follows that the war sector absorbed in 1941 something like 50 per cent. of the insured workers. This percentage would not be significantly changed if we added to the total volume of insured labour workers excepted from unemployment insurance. It may thus be said that roughly a half of all manual workers (except those in agriculture and domestic service) and lower grade salary earners—below £420 p.a.—were employed in 1941 in the war sector." *Bulletin of the Institute of Statistics*, Oxford, Vol. V, No. 1, 9 Jan. 1943.

According to the revised Federal Reserve Board index about 70 per cent. of United States industrial production is going for war purposes; cf. *Federal Reserve Bulletin*, Oct. 1943, p. 942.

² See below, p. 115.

In the Axis and Axis-occupied countries the problem of reconversion and replacement will be even more serious. Aerial bombardment will have destroyed a large part of their industrial plants. A considerable amount of industrial equipment in the occupied countries has long been dismantled and transferred to Germany, where industrial production is now concentrated. Norwegian ores, for example, which used to be refined in Norway, are now sent to Germany to be worked up. The ownership of factories and firms which have been bought up by the Nazis—in occupation currency taken as tribute from the captive peoples—will raise extremely complex questions in the post-war settlement.¹ Furthermore, throughout Germany and German-controlled Europe, production for the war effort is completely ruthless and takes no account of post-war needs. The occupying forces will find ruined equipment and little seed, breeding stock, or raw materials needed to restart the process of production.

The war has probably somewhat accelerated the process of concentration in many lines of industry. Governments naturally find it more convenient to place their large orders with the great corporations than to allocate their requirements among a large number of small firms. Although many of the latter are working to capacity on orders subcontracted from the great corporations, it seems probable that on balance, plant expansions on the part of the large firms will have increased their share in total output. At the present time the subcontracting firms are in a strong position, but it is possible that they may become dependent for orders on the large businesses, much as the domestic craftsmen gradually became dependent upon the early commercial capitalists. In the civilian sector of industry, the shortage of manpower often weighs most heavily on small enterprises. In addition they lack the financial reserves of large companies and are apt to be forced out of business first. As industry is rationalised to save labour, especially in the retail trades, individual enterprises have been progressively eliminated. This process has gone furthest in Germany.²

The trend towards concentration of economic power has also taken another form. The official bodies controlling production in various industries have often been directed by men important in the respective trade associations who are at the same time associated

¹ Cf. *Inter-Allied Declaration against Acts of Dispossession committed in Territories under Enemy Occupation and Control* (with covering Statement by His Majesty's Government in the United Kingdom and explanatory Memorandum issued by the Parties to the Declaration) (London, H. M. Stationery Office, 1943), Cmd. 6418.

² Cf. Hubert K. LANDENBURG: "German Retail Trade and Handicrafts Today", in *Foreign Commerce Weekly*, 12 June 1943, pp. 3 *et seq.*

with the giant corporations. Thus the most powerful enterprises are likely to be in a very strategic position in their industries at the end of the war.¹

The changeover from peace to war has resulted also in a widespread redistribution of the available labour forces. The example of Great Britain is outstanding. Out of an active adult population of 33 million, "at least 75 per cent. are now effectively occupied in the armed forces, in war industry, or in other work or service".² More and more men have been taken into the armed forces and future drafts are still expected to be heavy; others have been shifted from non-essential to essential industries, while those possessed of special skills have been redistributed within the war industries. Working hours have been considerably increased. From April 1941 labour in industries subject to curtailment has been concentrated in "nucleus" factories. The process of concentration has been steadily extended to various fields including the retail trade, where it has, however, not been entirely satisfactory. In August 1942 the total number of workers already released and likely to be released under the schemes then under consideration was about 250,000, or rather more than one fifth of the number engaged in the industries concerned before concentration.³ Dock labourers have been organised into a mobile unloading corps. More and more women have been mobilised for war work, so that between June 1939 and June 1942 the number of women employed in munitions and other essential industries increased by 1,750,000. In the first three years of the war between four and five million people in Britain were shifted from their homes and transferred to war work in other parts of the country. "Persons never before employed in industry and never before away from home have been brought into war factories by the hundreds of thousands, while, in addition, other hundreds of thousands of workers have been transferred from less essential to more essential work."⁴

Similar changes have occurred in all the belligerent countries, in the United States, in Russia, in the British Dominions and in German-controlled Europe. In pre-war Australia, for example, there were about 540,000 factory workers, nearly all employed in peacetime production. After the war broke out national service

¹ Cf. the example of Great Britain in R. A. BRADY: *Business as a System of Power* (New York, 1943), pp. 181-188.

² INTERNATIONAL LABOUR OFFICE: *Wartime Transference of Labour in Great Britain*, Studies and Reports, Series C, No. 24 (Montreal, 1942), p. 1. What follows has been mainly summarised from this report.

³ *Economist*, 29 Aug. 1942, pp. 260-1; cf. also *Foreign Commerce Weekly*, 1 May 1943, pp. 3 *et seq.*

⁴ INTERNATIONAL LABOUR OFFICE: *Wartime Transference of Labour in Great Britain*, *op. cit.*, p. 161.

offices were set up for the redirection of labour and by the summer of 1942 the number of factory workers had risen to 700,000, only 200,000 of whom were engaged in peacetime production.

In the United States, which became an active belligerent in December 1941, the changes have not yet reached such drastic proportions. But by December 1942 about 23 million people, 23 per cent. of whom were women, were engaged in war work as civilians or soldiers, an increase of more than 14 million over December 1941. At the same date only about 21 million, 37 per cent. of them women, were non-war employed, a decline of 8 million from the total a year before.¹ By July 1943 the total number in the armed forces and war industries had risen to nearly 25 million and by July 1944, according to an official estimate, it will be 28 million.²

In continental Europe the situation has some special features. The economic activity of virtually the whole area from the Atlantic to the Black Sea, from the Arctic to the Mediterranean, with the exceptions of Sweden and Switzerland, is controlled from Berlin. Workers have been conscripted in the occupied countries and transferred to the German economy to replace Germans going to the front. According to a recent estimate there were at the beginning of 1943 about 6.5 million foreign workers in Germany.³ Many of these, notably the "Ostarbeiter" from Poland and the occupied parts of the Soviet Union, are treated more or less like prisoners of war. Production for civilian use throughout Europe has been ruthlessly eliminated, food supplies in many areas have fallen far below the physiological limit of subsistence, and the end of the war will find the available active population half-starved, ill-clad and ill-equipped to produce the peacetime goods which will be so urgently needed.

The first responsibility of governments when the peace is signed will be the orderly reconversion of the war sector of the economy to civilian use. The extent to which the United Nations armies will be demobilised will naturally depend upon policies decided upon regarding the military occupation of the Axis countries. Some war plants will be adaptable to peacetime uses⁴, others will not. War contracts will have to be liquidated and labour redirected into peacetime production. In this reconversion process it is essential that any sudden and large decline in total output be

¹ U.S. NATIONAL RESOURCES PLANNING BOARD: *National Resources Development Report for 1943*, Part 2, pp. 21 *et seq.*

² U. S. War Manpower Commission, Reports and Analyses Source: *The Labour Market*, Dec. 1943, p. 7.

³ INTERNATIONAL LABOUR OFFICE: *The Displacement of Population in Europe*, *op. cit.*, p. 160.

⁴ Army trucks, for example, might be useful in replacing temporarily at least the commercial trucks which travelled on the roads of Europe before the war and which have largely been requisitioned by the Nazis for military use.

avoided. Although it would be advisable to cancel at once all production of munitions and other materials which have no alternative use, it may be worth while to continue to produce certain goods such as army trucks and jeeps and sell them below cost until accumulated inventories are exhausted. But, as the Director of Steel Supply of the United States War Industries Board wrote at the end of the last war, it is cheaper to grant subsidies to labour, such as dismissal wages, rather than use that labour to continue the manufacture of high-priced, useless weapons of war.¹

National programmes of reconversion will differ widely. The extent to which the responsibility for economic demobilisation will be delegated to private industry and the actual planning decentralised will depend upon the economic and political structure of the country after the war. In some countries government plants built during the war but also useful in peacetime² may be retained and operated by the government; in others they may be turned over to private enterprises, while in some cases new forms of joint enterprise may develop. But in all such programmes the factor of timing is crucial and this should remain a government responsibility.³ It is essential that conversion plans should prevent the occurrence of "bottlenecks" in production which might result in a lack of necessary materials and consequently in intermittent unemployment of men and equipment. If economic demobilisation is left to private industry alone, without general direction and allocation of available supplies, the job is unlikely to be done satisfactorily.⁴

In any consideration of the problems of economic demobilisation the experience of the last war should not be forgotten.⁵ For although the immediate post-war period is likely to differ in many respects from that following the armistice of 1918, many of the same major

¹ " . . . it would be better to immediately cancel all war material for which we can see no use after the war. . . . We could well afford the granting of subsidies to labour rather than continuing the manufacture of high-priced munitions at an enormous profit to the manufacturer without real benefit to the Government." Cited in U.S. NATIONAL RESOURCES PLANNING BOARD: *National Resources Development Report for 1943*, p. 25.

² E.g., in the shipbuilding and light metal industries.

³ The general responsibility of governments in combating unemployment is increasingly widely recognised by business groups. Cf. LEVER BROTHERS AND UNILEVER: *The Problem of Unemployment* (London, Jan. 1943); Samuel COURTAULD: "An Industrialist's Reflections on the Future Relations of Government and Industry", in *Economic Journal*, Apr. 1942, pp. 1-17.

⁴ Recognising this, Sir William Beveridge has proposed the creation of an Economic General Staff to carry out a national plan of resource allocation in Great Britain, since without such a plan knowledge and control of investment and employment would be impossible. *Economist*, 19 Dec. 1942, p. 758.

⁵ The process of economic demobilisation in the United States and Great Britain after 1918 has recently been analysed in a valuable study by the Economic, Financial and Transit Department of the League of Nations, entitled *Economic Fluctuations in the United States and the United Kingdom, 1918-1922* (Geneva, 1942).

problems will inevitably reappear. There will be the same sudden increase in the labour supply available for the production of civilian goods.¹ A great potential demand for consumers' goods will also reappear. Price control and rationing, despite their shortcomings, have thus far (1943-44) been much more effective than in 1914-18. Although tax rates have been raised considerably, in some countries to extraordinarily high levels, this has not been sufficient, especially in the United States, to prevent the accumulation in private hands of a large volume of liquid assets which cannot yet be converted into real goods. Demand deposits have increased much faster than prices have risen. The size and character of the public debt at the end of war may also raise difficult problems especially if bondholders rush to cash their claims soon after the end of hostilities. Thus the danger of inflation, should price and rationing controls break down or be removed at the close of the war, is considerably greater than it was after 1918. Money is likely to be more plentiful and stocks of goods even scarcer. In some countries, notably in China and to a less degree in occupied Europe, inflation has already gone far and quick international action will be required if there is to be any hope of preventing a runaway flight from the currency.

The impact of the war on technical progress must also be taken into account. The influence of the first world war on motor traction was decisive and there seems little doubt that the effect of the present war on air transport will be even more striking. Faced by scarcities, scientists are developing new synthetic materials. Technical advances realised in wartime are likely to render our present radios and automobiles quickly obsolete. But perhaps the most significant wartime change has been not so much the development of new products and new techniques as the spread of mass-production methods, adapted to extremely fine tolerances, to new industries, and more important, to new areas.

In view of the increasing importance of durable consumers' goods, the greater magnitude of deferred maintenance and replacement, and the accelerated rate of technical progress, the demand for capital is likely to be at least as insistent and as liable to cause a runaway boom as it was after the first world war. If this expansion is to be controlled, wartime rationing and price controls and other instruments which ensure a steady supply of necessary goods and services and an equitable distribution of that supply should be retained in the immediate post-war period. Tax reductions, except where taxes interfere with production incentives, should be post-

¹ Both absolutely and relatively this increase in the labour supply will be much larger than in 1918. This is especially true of the United States, which was then devoting only a quarter of its total output to the war. At the present time, the proportion is about 70 per cent.

poned until conditions are more stable. After the last war the main desire of governments and business alike in most countries was to get rid of hampering control boards and return to "normalcy" as quickly as possible. The result was a short inflationary boom period followed by a sharp recession and a failure on the part of governments to attack the urgent problems of long-run economic reconstruction and adaptation. In the relaxation of wartime controls it would probably be better this time to err on the side of caution rather than suddenly to allow uncontrolled private demand to replace government demand.

The main lesson of experience after the first world war is that to separate the period of demobilisation and repair from that of long-range reconstruction is to invite disaster. After the armistice in 1918, "the one major concern" of the British Government, prompted both by a fear of social unrest and by a sincere desire to recompense the returning soldiers, "was to create a situation in which the demobilised men might find employment readily at the most favourable possible wages".¹ But neither in the United States nor in Great Britain did this turn out to be the real problem. For a time employment opportunities were relatively plentiful and the job of repairing the national economies was relatively quickly accomplished², but as the League of Nations analysis makes very clear, "the major problem of the transition from war to peace economy . . . proved itself to be not one of getting demobilised men and machines re-employed, but of the cyclical effects of the perhaps unavoidably bumpy nature of post-war pent-up demand".³

The general contraction in industry immediately after the present war is likely to be much greater than after the armistice in 1918. In individual industries it will be very high. The American aircraft industry, for example, may face a 90 per cent. shutdown. On the other side of the ledger many economic adjustments which were urgently required will have been carried out under the pressure of war. The movement out of agriculture in the United States is but one example; the contraction of the Lancashire cotton industry is another. The traditional immobility of labour, a factor of great importance to economic adjustment in an old industrial country such as Great Britain, has been reduced, perhaps permanently, by wartime transference. But despite these and other differences

¹ LEAGUE OF NATIONS: *Economic Fluctuations in the United States and the United Kingdom, 1918-1922*, op. cit., p. 76.

² "At the end of the boom period of 1919-20, the productive capacity of the world in nearly every respect was at least as great as might have been anticipated eight years before even if there had been no war." A. L. BOWLEY: *Some Economic Consequences of the Great War* (London, 1930), p. 93.

³ LEAGUE OF NATIONS: *Economic Fluctuations in the United States and the United Kingdom, 1918-1922*, op. cit., p. 79.

from the last post-war period, it is overwhelmingly probable that the immediate post-war employment problem will not be how to provide employment for the demobilised soldiers and workers, but how to give employment which will not be subject to sudden and violent fluctuations in volume.

The demand of the workers for re-employment has mainly taken the form of insistence on reinstatement in their former jobs. In some cases, such as those of workers conscripted into the armed forces, this has been legally guaranteed.¹ In others, such as compulsory transfers to essential industries in Great Britain, no assurance has been given. It is coming to be recognised more and more widely, however, that reinstatement is not an adequate solution. In Great Britain, which has been most preoccupied with this question, the Government "considers that the problem is one which affects the whole industrial and military population of the country and that the solution for it must be on an equally broad basis. The Government's efforts are thus directed towards planning for the existence of adequate employment opportunities in the post-war period. Throughout the country, increasing emphasis is being placed on employment security as the corner stone of the post-war economy."² There is no escape from the conclusion that a satisfactory solution for the problem of economic demobilisation can be found only within the framework of a long-run policy designed to maintain a high and steady level of economic activity and employment.

B. INTERNATIONAL CO-OPERATION IN THE TRANSITION PERIOD

The point has been made that in the situation of acute scarcity which will prevail at the end of the war, national governments must take resolute action by means of the available price and rationing controls, licensing systems and other instruments of resource allocation to prevent or arrest runaway inflations, and to ensure equitable distribution of many of the very limited supplies that will be available in order to get national economies back to efficient production as quickly as possible. Some countries will be better equipped to take such action than others. The United States

¹ In the United States the Selective Service Act, 1940, "directed that arrangements be made for the return to previous employment of all men called for service with the armed forces of the Government". The President, in approving the extension of the Selective Service Act to include youths aged 18 and 19 years, said that consideration was being given to the problem of post-war continuation of education interrupted by war. NATIONAL RESOURCES PLANNING BOARD: *National Resources Development Report for 1943*, p. 10.

² INTERNATIONAL LABOUR OFFICE: *Wartime Transference of Labour in Great Britain*, *op. cit.*, pp. 143-4.

will emerge from the war still comparatively rich in foodstuffs and raw materials, and with its productive structure distorted but not physically damaged. The countries of occupied Europe will be at the other extreme. Starvation conditions will rule¹, raw material supplies will be exhausted, and industrial equipment will have been looted to feed the Axis war machine. Great Britain and Russia will be in an intermediate position, both with their productive machinery damaged and foodstuffs and raw materials in very short supply. Most countries will face large budgetary deficits and their balances of payments will be severely strained.

In this situation of general scarcity, strong national action to combat the problems of the immediate post-war period, though necessary, is not likely to be sufficient. If, for example, a relatively wealthy country like the United States were to remove the wartime controls of demand and let prices rise, while other nations retained these controls and kept prices stable, this might jeopardise the whole reconstruction process. At first other countries would be deprived of their share of imported materials which they so desperately need, and the inflationary pressure on their price levels would increase. Later the country which had allowed prices to rise would find its exporting capacity impaired, and if it undertook a unilateral currency devaluation, other countries would surely counter by erecting barriers to imports from it. The economic problems of the transition period will be difficult enough even with a considerable measure of national discipline and international co-operation; without such discipline they will be insoluble.

It is already clear that many countries will not at first be able to pay for the materials they urgently need if governments are to be able to nurse their economies through the difficult period of transition. Although recovery from the effects of the war will in the end depend upon the productive work of the populations themselves, these countries will in the beginning need aid in the form of goods and services for which no payment can be expected either immediately or in the future. During and after the first world war large quantities of food, mainly from America, were distributed to the stricken countries of Europe as "relief aid". But although that prompt action saved numbers of lives in the years of near famine, it was conceived as a relief undertaking rather than as an integral part of a programme of economic reconstruction.

Two main lessons can be drawn from the experience of the American Relief Administration. "Relief", as then understood, covered goods paid for by the receiving countries in gold or in other

¹ Cf. NATIONAL PLANNING ASSOCIATION: *Relief for Europe*, Planning Pamphlets, No. 17, Dec. 1942, pp. 3-30.

assets. Between the signing of the Armistice on 11 November 1918 and the conclusion of the Peace Treaty on 28 June 1919, 32 per cent. of the aid was paid for in cash and 68 per cent. was received on credit, while only 0.4 per cent. was distributed as a free gift.¹ After the signing of the peace treaty, official inter-Allied relief operations were quickly liquidated. The relatively small deliveries made in the so-called "reconstruction period", which lasted from mid-1919 until the end of 1924, were principally outright gifts and were actually emergency measures taken to combat conditions of the most extreme distress. In fact the period of "immediate relief" was ill-named, while the "reconstruction period" existed in name only and was actually a series of relief operations. Ultimately the "relief loans" went into default and "the United States, though on paper selling for about \$1,000,000,000 on credit, actually made a transaction equivalent to a cash sale of some 10 per cent. plus a gift of 90 per cent. of the total amount of relief".² The cash payments in the Armistice period served only to weaken further the already shaky recipient economies and to reduce their future capacity to pay. The credit transactions, though less damaging, were likewise unfortunate. Relief loans were never commercial risks. The bulk of available assets were pledged on them with the result that no collateral was left for real reconstruction loans. It would have been both more charitable and economically sounder to make an outright and immediate gift of the supplies needed in the "relief period" and to reserve aid in the form of international loans for a real period of reconstruction.

The second point relates to the comparative treatment of ex-allies, liberated countries, and ex-enemy countries. After the Armistice the liberated and ex-allied countries received the bulk of their "relief" supplies on credit; ex-enemy countries, on the other hand, had to pay cash.³ Mainly as a result of this arrangement, deliveries to Germany were far below the amounts she was permitted to import under the terms of the Brussels Agreement⁴, while the amounts sent to liberated countries and ex-allies exceeded the estimates. Shipments to Germany were held up and the Allied blockade maintained until the required deposits of gold had been made and the German merchant marine had sailed out of its home

¹ Cf. LEAGUE OF NATIONS: *Relief Deliveries and Relief Loans, 1919-1923* (Geneva, 1943), p. 8.

² *Ibid.*, p. 29.

³ "It is broadly true to say that during the Armistice Period the liberated countries and ex-allies received relief on credit (85 per cent. and 93 per cent. of the total net value) whereas the ex-enemies paid cash." *Ibid.*, p. 24.

⁴ Cf. F. M. SURFACE and H. L. BLAND: *American Food in the World War and Reconstruction Period* (Stanford University Press, 1931), p. 198.

ports. This discriminatory treatment was long and bitterly resented by the German people.

In contemporary discussion of these problems the concept of relief aid has been redefined. It is no longer thought of in terms of food alone, but includes seeds, livestock, fertilisers, and clothing.¹ Plans for the organisation of relief and rehabilitation are well advanced. Before the United States' entry into the war the Inter-Allied Committee on Postwar Requirements, of which Great Britain and eight European Governments-in-exile were members², was formed in London under the chairmanship of Sir Frederick Leith-Ross of the British Treasury. The task of this body was to try to assess the minimum requirements of all the occupied countries for food, clothing, medicine, seeds, tools and raw material in the immediate post-war period. It had, however, no powers or funds with which to buy surpluses, but was apparently successful in discouraging allies with funds from buying up products of which shortages exist.³

In November 1943, by an agreement signed by representatives of the forty-four nations united and associated in the war, a United Nations Relief and Rehabilitation Administration was set up with the task of ensuring that "immediately upon the liberation of any area by the armed forces of the United Nations or as a consequence of retreat of the enemy the population thereof shall receive aid and relief from their sufferings, food, clothing and shelter, aid in the prevention of pestilence and in the recovery of the health of the people, and that preparation and arrangements shall be made for the return of prisoners and exiles to their homes and for assistance in the resumption of urgently needed agricultural and industrial production and the restoration of essential services".⁴

The executive authority of the Administration is vested in a Director-General who has full power to carry out relief operations according to broad policies determined by the Council of the Administration or its Central Committee. The Council held its first session in November 1943, appointed Mr. Herbert H. Lehman, former Governor of the State of New York and head of the United States Office of Foreign Relief and Rehabilitation Operations, as

¹ In a speech to the Foreign Policy Association, Mr. Herbert Lehman said: "In all situations the technique of salvage and rehabilitation must constantly be oriented towards the objective of reconstituting the economy of the recipient nation." *New York Times*, 18 June 1943.

² The Soviet Government was not a member, but was kept informed of each new development.

³ *New York Times*, 20 Mar. 1943, p. 6.

⁴ Preamble to Agreement for United Nations Relief and Rehabilitation Administration. *First Session of the Council of the United Nations Relief and Rehabilitation Administration, Selected Documents, Atlantic City, New Jersey, November 10-December 1, 1943*, p. 7.

Director-General, and adopted a number of resolutions laying down the policies to be followed.¹

Throughout this first session of the Council it was stressed that the principal objective of the United Nations Relief and Rehabilitation Administration is to help people to help themselves and thus bring the need for relief to an end as speedily as possible. Thus, a resolution on agricultural rehabilitation states that—

... it shall be the responsibility of the Administration to assist governments and recognised national authorities in the liberated areas immediately to take the necessary steps in providing the supplies and services needed to enable farmers to sow and harvest essential crops during the first crop year, to maintain their dairy herds, and to rehabilitate their farms for immediate food production. It shall also be the responsibility of the Administration to assist in restoring necessary processing facilities; in providing for the early expansion of fisheries and of the whaling industry; in reinstating the agricultural labour needed to carry out the production programme; and, to the extent that they can contribute to the solution of relief problems, in re-establishing experimental stations and essential agricultural institutions, organisations, and services, in making the necessary technical surveys to determine agricultural requirements and to lay the basis for production programmes.

A corresponding resolution concerning the rehabilitation of such industries, transport and other services as are essential to relief stresses the same objective of bringing an end to relief as rapidly as possible. No new construction or reconstruction is contemplated, but it is clear from these statements of policy that the activities of the United Nations organisation which has been set up will include rehabilitation as well as actual relief.

Estimates of the quantities of foodstuffs, clothing, raw materials and equipment which different countries will need can only be provisional and approximate and it is improbable that they will be met in full. If the process of military conquest and reoccupation is gradual and piecemeal, the United Nations may find it possible to provide most of the goods urgently required. If, on the other hand, the European front collapses suddenly, they will be faced with needs far beyond their capacity to fill. In the latter case it would seem advisable to consider the continent of Europe as a single unit, to set up, as far as possible, definite principles according to which the urgency of needs is to be calculated, and to allocate the available supplies on the basis of greatest need. In the distribution of goods for relief and rehabilitation, the wartime experience gained by the Combined Food Board, the Combined Production and

¹ Agreement for United Nations Relief and Rehabilitation Administration. *First Session of the Council of the United Nations Relief and Rehabilitation Administration, Selected Documents, Atlantic City, New Jersey, November 10-December 1, 1943.* Cf. "The United Nations Relief and Rehabilitation Administration", in *International Labour Review*, Vol. XLIX, No. 2, Feb. 1944, pp. 145-159.

Resources Board, the Combined Raw Materials Board and the Combined Shipping Adjustment Board will be invaluable.

It is likewise impossible to say now what means of payment will be available and, therefore, what proportion of the goods will be required as relief aid.¹ For the present the United Nations Relief and Rehabilitation Administration is to be financed by a contribution of one per cent. of their national income from all the "non-invaded" nations; while the countries which have been occupied by the enemy will make what contribution they can.

The amount of goods which will be forthcoming will depend upon the willingness of the more fortunate nations to co-operate with the less fortunate in the common effort to restore productivity as quickly as possible. In order to secure the optimum distribution of available supplies, it may be found desirable to co-ordinate and continue for a time national rationing policies, and to regulate the flow of scarce raw materials according to an agreed system of priorities. It is to be hoped that the peoples in the more favourably situated countries will be persuaded that it is in their own best interests in the long run to bear with such wartime discomforts for some time after the end of hostilities.

The nucleus of the machinery necessary to carry out these policies already exists in the inter-allied bodies controlling foods, raw materials, and tonnage.² These are still for the most part in fact Anglo-American rather than United Nations organisations. General agreement has however been reached that a permanent organisation of the United Nations is to be established in the field of food and agriculture and detailed plans for such an institution, which is to be mainly concerned with long-run problems relating to the improvement of nutrition and agriculture³, have been drawn up by an Interim Commission.

No precise criteria of comparative need can as yet be set up by which relief and rehabilitation supplies should be allocated. As the League of Nations experts suggest, the aim should be to mitigate or avoid inflation, and to avoid commitments which are likely to lead to a subsequent financial collapse.⁴

Conflicts of interest will certainly arise in this process of resource allocation, and a large measure of sympathetic understanding and generous co-operation on the part of the more fortunate nations will be necessary if it is to be carried through successfully. Reprovi-

¹ Sometimes, as in North Africa, money may be available to pay for the goods required. Distribution through commercial channels might then relieve inflationary pressure on the currency.

² See above, p. 63.

³ See below, p. 101.

⁴ LEAGUE OF NATIONS, *op. cit.*, p. 79.

sioning of the impoverished areas can be carried out much more easily if stable international monetary and trading relationships are restored with all possible speed. For until a healthily functioning system of multilateral trade and finance is built up, creditor countries will be unwilling to grant reconstruction credits, either directly or through an international agency, to finance the purchase by the debtor countries of the products necessary to maintain production, and the debtor countries will have little chance of paying for those products. The whole calculation of relief aid is postulated upon the restoration of a multilateral trading system, for without such a system all help provided would be relief aid and there would be no real reconstruction. Consideration of such problems is best postponed until the following chapter. For the moment it is sufficient to underline the fact that the international aspects of economic demobilisation, relief and rehabilitation, like the parallel domestic problems, cannot realistically be separated from the long-run problems of reconstruction and adaptation.

V. INTERNATIONAL CO-ORDINATION OF NATIONAL POLICIES

The preceding chapters have sought to define the main economic objectives of post-war planning and to analyse the probable conditions in which these objectives will have to be pursued. Special emphasis has been laid upon the disturbed situation likely to arise immediately at the close of the war.

It has been argued that modern developments in communications and industry have rendered the nations of the world mutually more interdependent than ever before.¹ It may be true that the development of synthetic materials and the advance in agricultural techniques have made it easier for nations to live at home. But if the aim of economic policy is to maximise human welfare, home production by itself will not suffice. The great improvement in living standards which was achieved in the nineteenth century was in great part a consequence of the system of multilateral trade which developed under British leadership. The present world distribution of population and capital equipment has been greatly influenced by that system. To renounce the benefits which multilateral trade can bring would inhibit further advances and even entail a considerable lowering of existing standards of living almost everywhere.

In the past, policies aimed at fuller employment and a greater measure of social security have frequently clashed with policies designed to encourage international trade and investment. This conflict is not inevitable. It will be argued in this chapter that positive national policies designed to maintain employment and improve the lot of the ordinary citizen are compatible with an increased volume of international trade—provided that there are international arrangements through which such national policies can be co-ordinated and cleared.

¹ Cf. pp. 29-30. See also, *e.g.*, LEAGUE OF NATIONS, ECONOMIC INTELLIGENCE SERVICE: *The Network of World Trade* (Geneva, 1942), and LEITH, C. K., FURNESS, J. W., and LEWIS, Cleona: *World Minerals and World Peace* (The Brookings Institution, Washington, D.C., 1943), Part V.

A. PROBLEMS OF DOMESTIC POLICY

Full employment and social security in every country are increasingly recognised as being matters of international concern¹; but most of the measures by which they must be achieved are likely for some time to come to remain primarily a national responsibility. Changes both in political boundaries and in national economic systems may occur during or after the present war, but it is overwhelmingly probable that the prerogatives and powers of sovereign States will not be fundamentally altered in the near future. It is true that the establishment of any effective organs of international co-operation depends upon the willingness of States to give up certain rights hitherto considered sovereign. Such concessions have been made in the past; more must be made in the future. But no government which permits the recurrence of mass unemployment after the war will be likely to remain in office for long. For this reason, if for no other, programmes designed to maintain employment and provide improved standards of social security will in the main be devised and put into effect by national governments.

Leaders of commerce and industry, business and labour agree that the prevention of mass unemployment after the war is a categorical imperative. The main difficulty is that there is not only widespread disagreement on the diagnosis of the ultimate causes of unemployment², but opinions clash among different social groups in different countries as to what evils they are anxious to avert and what cures they are prepared to accept. Within the limits of the present study it is not possible to put forward a complete programme of business cycle control and anti-depression measures. Indeed, that is not our purpose. For no single programme would be universally suitable. We wish here to direct attention to certain practical questions upon which a fairly wide measure of agreement must be secured if any programme directed towards the achievement of full employment and social security is to have any chance of success.

Some of these questions raise fundamental issues of social policy. Others are less controversial. It is generally agreed, for example, that every effort should be made in the post-war period

¹ Cf. the Declaration concerning the aims and purposes of the International Labour Organisation and the resolution concerning social provisions in the peace settlement, adopted by the International Labour Conference at its 26th Session, Philadelphia, 1944 (INTERNATIONAL LABOUR OFFICE: *Official Bulletin*, Vol. XXVI, No. 1, June 1944, pp. 1 and 79).

² For excellent discussions of some of the main points of controversy, cf. D. H. ROBERTSON: "The Snake and the Worm" and "A Survey of Modern Monetary Controversy", in *Essays in Monetary Theory* (London, 1940).

to increase labour mobility, even though that effort should bring with it a temporary rise in "frictional" unemployment.

The problem of labour immobility is most acute in old industrial countries and in those where peasant agriculture is the predominant occupation. In the former, where the unemployment problem is largely that of providing steady employment for the unskilled labourer, severe structural disequilibria—the legacy of past failures to adapt the productive structure to changing needs—add to the difficulties which must be faced.¹ The flow of labour to secondary and tertiary industries in the countries with the highest living standards, although striking, has not been fast enough, and means must be sought to help and encourage workers to move from stagnant or declining industries to new and expanding sources of employment.² Peasant agricultural countries, on the other hand, where the labour market is relatively unorganised, are characterised by a high degree of "underemployment" rather than by a large percentage of the active population totally unemployed. In those countries, the main problem is to increase the speed of transference from agricultural to industrial occupations. Although much can be accomplished by improvements in both educational and employment services, the problem can be solved only by a comprehensive programme of agricultural and industrial development.

There are many reasons for the comparative immobility of labour. Poverty, family ties, insufficient knowledge of the state of the labour market, or mere inertia, may prevent a worker from seeking employment in another industrial region. Lack of education and training may hinder him from obtaining employment in a new occupation.

Immobility of the first type may be alleviated by the extension and co-ordination of employment offices and there is reason to believe that in some countries the situation has been favourably affected by the war. Additional machinery for the redirection of labour has been set up, for example, in Great Britain and Australia. These offices will be invaluable in the post-war period. In addition, the prevalent inertia of workers in old industrial countries has been affected, perhaps permanently, by forced wartime transfers. Ex-

¹ In Great Britain just before the war the rates of employment absorption varied widely from region to region. In the old industrial area of the northern counties only 426 out of 1,000 men who became unemployed in the last quarter of 1938 found new jobs, at least temporarily, within three months. In the new centre of light manufacturing industries, around London, 701 out of 1,000 added to the unemployment register in the last quarter of 1938 were re-employed within the next three months. Over a rather longer period these rates show a tendency to become more nearly equal. Cf. H. W. SINGER: "Regional Labour Markets and the Process of Unemployment", in *Review of Economic Studies*, Vol. VII, pp. 42-58.

² Cf. A. G. B. FISHER: *The Clash of Progress and Security* (London, 1935).

perience has also been gained in the rapid construction of low-cost prefabricated housing units in areas experiencing boom conditions. The process of industrial demobilisation and adaptation will be made much easier if these improvements are retained and extended and if the wartime experience of some countries is drawn upon by others.

Adequate provision for retraining has been emphasised in the various government reports on social security. "It is not necessary to emphasise further", states the Canadian report, "the crucial importance of turning the fullest resources of training and retraining to the problem of occupational transference immediately the need for war production is over".¹ Here, too, much has been learned in wartime, and effective industrial training facilities have been built up which should be fully utilised in the transition period. In some countries the abolition of obsolete apprenticeship rules in craft unions, which hinder the training of skilled workers, is very necessary. But union opposition to such measures has in the past, and in the absence of positive employment policies, been powerful.

It is sometimes forgotten that the armed services are also training large numbers of skilled workers, aeroplane and motor mechanics, radio operators and mechanics. The United Nations, and notably the industrial countries among them, will emerge from this war with a better trained and equipped labour force than they have ever before possessed. From its centre in the United States, technical knowledge and ability to utilise techniques of mass production requiring extremely fine tolerances has spread to other industrial countries. The long-run effect of this change on the economies of these countries is certain to be important.

In a study of occupational maladjustment in London, Colin Clark, using data analysed by Professor Bowley, has shown that unequal educational opportunity, the result of parental poverty, was an important cause of the surplus of unskilled labour in Great Britain.² Even in the United States, where mass education is more nearly achieved than in most other countries, this conclusion would still apply, at least in the South. All efforts to attain better stand-

¹ *Report on Social Security for Canada, op. cit.*

² "Generally speaking these figures show that the most potent factor in causing the present surplus of unskilled labour in Great Britain was the existence of a large unskilled population in the last generation (for whom there was work at that date, however) coupled with the marked difficulty experienced by sons, under present laws, customs and economic stresses governing apprenticeship and education, in entering any occupation better paid than that of their fathers. . . The supposed high quality of British education does not compensate for its lack of quantity." Colin CLARK: *The Conditions of Economic Progress* (London, 1940), pp. 235 *et seq.* The figures Clark uses are from A. L. BOWLEY: "New Survey of London Life and Labour", in *Economica*, 1935, p. 402.

ards of education, liberal and vocational, are at the same time measures calculated to reduce the surplus of unskilled labour and by the same token to reduce unemployment.

It is more and more recognised also that merely negative policies such as the removal of tariffs and the other obstacles to trade cannot by themselves ensure a high and steady level of economic activity and employment. Fluctuations in the rate of capital formation would remain a serious problem. There is also substantial agreement that control of the rate of real investment by means of the interest rate is not an adequate solution for this problem. The opinion therefore gains ground that a policy of investment control by the State, perhaps involving some degree of public investment, may be required.¹ But what is to be the extent of State intervention in the investment process? Is it to be confined to anti-depression measures or is it to be a more permanent policy? Will its continuance beyond some "normal" level of activity—at which large numbers of men are still without jobs—set in motion a cumulative expansionary process which sows the seeds of its own destruction? Is State investment to take the form exclusively of "non-remunerative" public works, or is it to include "remunerative" projects like the Tennessee Valley Authority which compete with private concerns operating in the same field? Is such a programme compatible with private capitalism?

In any case, control of investment, on which great emphasis is currently being placed, is only half a solution.² For unless labour is satisfied with the existing distribution of income the pressure for higher wages will continue, and the attempt to achieve full employment through a policy of investment control alone will lead to wage inflation. It is not enough to take the view that full employment is to be sought within the pre-war social and economic organisation. The broader question of the adequacy of that organisation must be raised.

One of the most disturbing features of our society has been the growth of restrictive agreements and the spread of monopolistic conditions leading to concentration of economic power and faulty allocation of resources throughout the economy. There is little doubt that these developments are an important cause of unemployment. The question must be asked, therefore, whether a democratic economy of abundance, social security and full employment is, in

¹ E.g., "Mass unemployment can be prevented if the community's annual investment can be made both large enough to embody the total of savings, and regular from year to year." *Economist*, 3 Oct. 1942, p. 408. The writer of this article advocates that a National Investment Board be set up to encourage and facilitate investment when the State requires it.

² Cf. letter of Thomas Balogh in the *Economist*, 28 Nov. 1942, p. 663.

fact, possible without some measure of centralised co-ordination and planning of national economic activities.

Such questions involve value judgments as to the desirability of different forms of social organisation. Different nations will give different answers to them, depending upon the distribution of political power among the various economic groups. Some countries may rely wholly on State enterprise, others largely on private enterprise, to provide employment for their resources of men and machinery, while in still others mixed systems of State and private enterprise may be developed. This wide variation constitutes one of the major difficulties confronting attempts to establish workable mechanisms of international co-operation.

National measures to combat depression, even when based almost entirely upon domestic considerations, cause repercussions far beyond the national boundaries. For example, if, in a period of crisis, a country, trading under gold standard conditions, attempts to redress its balance of payments by the classical remedy of credit contraction and deflation, it erects an indirect barrier to imports. But the imports of one country are the exports of another and such a barrier will, therefore, have an adverse effect upon economic activity in the exporting countries. This is not to say that international trade and the operation of the gold standard mechanism are responsible for the business cycle. But if the assumptions upon which the classical theory of the balance of payments was based are not substantially valid and there exists in the economic system of a country a tendency to periodic fluctuations, these will be transmitted to other countries by way of international trading and financial connections.

National measures taken to relieve unemployment have been classified as "selfish" or "unselfish".¹ A country which devalues its currency and raises the level of domestic activity by curtailing its imports and stimulating its exports, does so at the expense of the rest of the world (unless the devaluation is necessary to bring the domestic price system into harmony with world prices). On the other hand, if a country chooses to combat a rising volume of unemployment by a positive programme of cheaper credit, the increased purchasing power will exert a favourable influence on economic activity in the rest of the world. In practice such a policy is seldom possible. In a country with large export industries in a depressed condition it could hardly be chosen, and if the depression was in part the result of an overvalued currency, as in Great Britain in 1931, it would not be an adequate remedy. Furthermore,

¹ D. H. ROBERTSON, *op. cit.*, pp. 105 *et seq.*

if such a policy is to give the maximum stimulus to employment, the multiplying effect of the initial investment must be as large as possible, and this can be achieved only if none of the investment leaks out through foreign trade or secondary investment abroad. It is therefore not surprising that in the past governments adopting positive measures to combat unemployment have followed "selfish" policies and have assumed direct and far-reaching control over international trade and investment.

Experience with these national controls in the last decade has not been happy. Almost without exception such autonomous business cycle policies to stimulate domestic employment have led in the end to a vicious circle of economic strangulation. Imports and foreign investment were restricted. As a result, exports shrank and the "unsheltered" trades languished. Subsidies, direct or indirect, were used to force the dwindling volume of exports upon unwilling customers. The total volume of trade shrank progressively and unemployment in the export trades was severe. The bitter experience of the 'thirties showed clearly that a country cannot cure unemployment by exporting it. It may benefit temporarily by a restrictive policy, especially if the terms of trade are in its favour and the foreign demand for its goods is inelastic; but when other countries introduce parallel restrictions its export industries are liable to be adversely affected. If all the restrictions are uniformly effective, each country retains its former share in a reduced volume of world trade. The world and all the countries in it are poorer than before.

Thus, although it remains true that the most important single contribution that any country can make to world prosperity is to achieve a high level of employment and economic activity at home, it is perhaps equally important that it should do so with due consideration for the repercussions of its policies upon other nations. This is especially true of the great powers. They are the great manufacturing centres as well as the largest markets for raw materials and foodstuffs. Some among them, notably the United States, will be in a position to provide on credit the capital goods required by industrially "backward" countries for their economic development. If, in attacking their domestic problems of economic demobilisation and adaptation to the changing needs of the world market, they will take account of the international repercussions of their domestic policies, the way will be open for the establishment of a stable framework of international economic relations. If, on the other hand, they follow the narrowly nationalistic, beggar-my-neighbour policies which brought chaos to international monetary and commercial relations in the

period between the wars they will set the stage for a third world conflict. Theirs is a grave responsibility; but it is the inevitable responsibility that goes with power.

B. NEED FOR INTERNATIONAL CO-OPERATION

The argument in the preceding section has laid stress upon the importance of national policies, and especially those of the great powers, in determining the course of international economic relations. Some domestic policies, such as the setting of tariff rates and import quotas, affect other economies directly; others, like the management of credit to combat unemployment, do so indirectly. But as long as the nation-State retains its sovereign rights, the authority which will be decisive in international affairs will be that of the national government.

In this situation the success or failure of any institutions of international co-operation or administration will depend upon the will of the member States to make them work. Members of the governing councils of such institutions usually represent and speak in the name of their national governments. The policies of such international organisations will therefore be determined by the instructions given to the delegates by their national governments. Will this mean in practice that the scope of the authority vested in such international bodies is likely to be strictly limited? In matters of vital importance this is indeed likely to be the case: the ultimate decisions will be taken by the national governments themselves. It is, however, to be hoped that States will be willing at least to delegate certain specific functions to appropriate specialised international institutions. There is, of course, a risk that the policies followed by such institutions may not be adequately co-ordinated, or may even conflict with one another. As the United Nations Conference on Food and Agriculture has clearly demonstrated, the various economic aspects of world order, relief and agricultural organisation, agricultural organisation and commercial policy, commercial policy and monetary stabilisation, monetary stabilisation and international lending, are inextricably interwoven. But against the risk of inadequate co-operation and co-ordination among more or less autonomous institutions must be set the advantage that by this procedure the imperfect working of one element is less likely to disrupt the rest.

(1) *Food, Agriculture and Raw Materials*

After the last war the first efforts at economic reorganisation centred around monetary and financial problems. The first United

Nations conference met, however, "to consider the goal of freedom from want in relation to food and agriculture".¹ The conference surveyed the existing world food situation in which underconsumption with its attendant evils of malnutrition and disease is widespread, and examined the possibilities of increasing production and improving distribution so that the people of the world might have sufficient food for adequate nutrition and good health. It was recognised that the achievement of this goal was closely bound up with national policies to maintain a high level of employment and with national and international policies relating to trade, currency, and investment. The field chosen for the first attempt at long-range co-operation among the United Nations, as well as the procedure followed by the conference, reflect the growing preoccupation with broad social objectives to which attention has already been drawn.

The results of the conference, embodied in the Final Act and in the individual section reports, constitute a manifesto setting forth new directives of policy rather than a detailed programme of practical action. But the conference also recognised the need for a permanent international organisation in the field of food and agriculture and recommended the establishment in Washington of an Interim Commission, one of whose functions would be to draw up detailed plans for such an organisation. This Commission has since held a number of meetings.

The main function of the proposed permanent body would be to act as a permanent consultative organisation in which specific national policies designed to raise levels of living and standards of nutrition would be discussed and as far as possible co-ordinated. Some of its subsidiary functions were foreshadowed at the conference. It would act as a centre of research, information and advice on matters of nutrition and agricultural policy. It would collect and seek to improve statistical data. There might also be set up within the larger organisation a division of agricultural credit, which would work with and advise national agricultural credit institutions.

Closely related to the functions of such an institution, though not necessarily organised under its supervision, would be such international arrangements as might be set up for the control of basic foodstuffs and agricultural raw materials entering international trade. One of the chief symptoms of economic maladjustment in recent years has been the marked instability of prices of foodstuffs and raw materials. Many attempts, private and public, national

¹ UNITED STATES, DEPARTMENT OF STATE: *United Nations Conference on Food and Agriculture, Final Act and Section Reports* (Washington, D.C., 1943), p. 1.

and international, have been made in the past to combat this evil, but in general their success has been meagre.

The main criticism of past international commodity control schemes is that they have been, in fact if not always in name, bodies representing the interests of organised producers. Sometimes consideration was given to the intermediate consumers, usually great manufacturing industries—if they were powerful enough to command attention—but the final consumers were never adequately represented. For this reason, and also because of their establishment in times of acute crisis, it is not surprising that these organisations of producers should have sought to protect their own positions and consequently have never made a resolute attempt to deal with the underlying problems of excess capacity and areas of high-cost production. The prevalence of widely differing cost conditions and the disinclination of the regulating committees to eliminate high-cost producers foredoomed these agreements to failure either because all producers could not be persuaded to join, or because the low-cost producers who were parties to the agreement found themselves hamstrung in periods of expansion, and constantly threatened to break the agreement.

Experience with past controls has likewise made it clear that such market regulation is complex and difficult. The history of agricultural market regulation in the United States and of the national and international rubber control schemes shows clearly that price control alone is of little use. Once control has been introduced the scope of regulation tends to spread from price to production, acreage, and exports.

In spite of the shortcomings of past arrangements, the need for some measure of international control remains, since, if no agreement is reached, nations will not hesitate, but will be tempted, if not forced, to subsidise directly or indirectly their high-cost producers as they did for years before the present war. Failure to reach agreement on policies of stabilisation and adaptation is thus likely to lead to a repetition, with new weapons as well as with old, of the policies of exaggerated economic nationalism and trade warfare of the 'thirties.

Although each commodity has its own special problems of production and marketing, it is possible, in the light of accumulated experience, to set down certain general objectives at which such international agreements should aim. In accordance with the fourth point of the Atlantic Charter they should be non-discriminatory. They should include provisions for adaptation in high-cost areas, for the removal of excess capacity, for the disposal of accumulated stocks and the maintenance of adequate reserves,

and for the regulation of prices so as to eliminate excessive fluctuations and keep prices at a level sufficient to call forth adequate supplies from the most efficient producers. They should include arrangements to ensure that labour employed on the production of controlled commodities receives fair remuneration and adequate social security protection and that the other conditions of employment are satisfactory.¹ Finally they should safeguard the legitimate interests of the unorganised final consumers and seek measures to expand consumption rather than to restrict production.

The technical management of any acceptable scheme must be given over to disinterested experts, members of the executive staff of the international agricultural organisation or some other international agency who have the welfare, not of any national or sectional group, but of the whole world community at heart. Suitable technical experts, willing to be true international civil servants, can be found. The real difficulties appear at the policy-making level where conflicts are likely to arise between national governments which identify their interests exclusively with those of their domestic producers, especially if the crop is important in the national economy, and those which speak out only on behalf of their great consuming industries. Only if a reasonable compromise can be based on a sincere consideration of the general welfare will such agreements have a chance to operate as effective instruments of progressive growth and change.

In the post-war period the main technical questions which will arise in connection with the international regulation of markets for foodstuffs and agricultural raw materials will be: (1) how to eliminate excessive seasonal and short-period price fluctuations and to maintain stocks at an adequate level; (2) how to effect international co-ordinated policies of progressive national adaptation to changing world market conditions, aimed at eliminating high-cost areas and excess capacity. In some commodity markets where regulation is contemplated, only the first of these questions will be relevant. Methods of solving the same problem will also have to vary widely because of the specific market characteristics of different commodities.

For several years before the outbreak of the present war, national stabilisation funds had been used successfully to absorb short-term fluctuations in the demand for foreign exchange.² If the conditions

¹ Cf. INTERNATIONAL LABOUR OFFICE: *Intergovernmental Commodity Control Agreements* (Montreal, 1943), p. xxix.

² For excellent descriptions of the British Exchange Equalisation Account, which operated extremely successfully, cf. N. F. HALL: *The Exchange Equalisation Account* (London, 1935), and Leonard WRIGHT: *The History and Mechanism of the Exchange Equalisation Account* (Cambridge, 1939).

of pure competition were fully realised there would be no need for such institutions since every movement away from the equilibrium position would set in motion forces which would tend to counteract that movement. But where the tendency to such fluctuations exists, and especially where considerable uncertainty prevails, such a fund or stock of foreign exchange can be used to absorb these movements and prevent them from attaining dangerous proportions. What an exchange stabilisation fund cannot do is to correct an underlying disequilibrium in the exchange situation.

Similarly in the commodity markets, where there are fluctuations in effective demand, "a divergence immediately ensues between the general interest and the course of action in respect of stocks which is most advantageous for each competitive enterprise acting independently".¹ The main reasons for this are high storage costs, the inability of primary producers to hold stocks, the speculative motives of wholesale purchasers and the lack of long-term holding power on the part of outside speculators. Buffer pools or stocks, which would be drawn upon or added to in order to counteract the excessive price movements resulting from these causes, could be used in much the same way as a foreign exchange stabilisation fund, to regulate the markets for the great agricultural staples where prices have been relatively unstable. They could also be modified for use in the markets for certain non-agricultural products where supplies cannot be expanded or contracted quickly in response to price change.

Buffer stocks have already been used in past commodity control schemes, notably by the International Tin Committee. These have however been administered by representatives of producing countries, primarily in the interests of the producers concerned.

Price stability is not an end in itself, since rigid prices may well aggravate existing structural dislocations and prevent smooth adaptation to changing market conditions; it is desirable only if such maladjustments are not present and the market quotations hover around an optimum equilibrium price. It has been suggested that those operating a buffer pool, by varying the prices at which they buy and sell the commodity, should combine a short-period stabilisation of prices with a long-period price policy designed to balance supply and demand and allow a steady rate of expansion

¹ J. M. KEYNES: "The Policy of Government Storage of Foodstuffs and Raw Materials", in *Economic Journal*, Vol. XLVIII (1938), p. 449. In Mr. (now Lord) Keynes' proposal the Government was only to provide storage facilities for producers; ownership was to remain in the hands of depositors to whom the Government could advance free of interest or at a rate equal to that on Treasury Bills up to 90 per cent. of the market price at the date of delivery into storage. If this proved insufficient to maintain stocks he proposed outright Government purchase.

to the most efficient producers.¹ While this might be successful in the regulation of some commodity markets it has already been shown that price control alone is often insufficient to rule out the possibility of serious market disturbances. The function of such buffer stocks should be limited to the control of seasonal and short-period fluctuations and to the maintenance of adequate reserve stocks. To overload such a body with functions differing rather widely in character and purpose is to lessen its chances of successful operation.

Yet the disagreeable fact remains that in the markets for many of the great agricultural staples entering international trade deep-rooted maladjustments already exist; some will be aggravated by the present war as they were during the first world war. To remove such long-term disequilibria, measures of quantitative control may be necessary. Opponents of these object that they are necessarily restrictive, that they tend to freeze the existing production pattern, and that they are likely to forget the interests of the consumers. If such controls are in the hands of independent bodies of organised producers this is obviously true, but if individual countries are attempting to raise domestic levels of employment and consumption and if the members of the regulatory organisations are in close contact with an international co-ordinating body, such difficulties may perhaps be avoided.

Stress has been laid upon the interconnection between the various economic aspects of world order. Freedom from want cannot be achieved by measures of agricultural policy alone, no matter how carefully co-ordinated. Decisions in regard to agricultural policy will affect and be affected by monetary, commercial and financial policies. There would be little use, for example, in drawing up elaborate plans for expanding production of staple foods in low-cost areas if barriers to international trade, or the lack of international short-term credit facilities, prevented the distribution of these goods among the great mass of potential consumers. The central economic problem of the post-war world will be to secure equilibrium in national balances of payments at levels of national income which will make possible adequate standards of nutrition and welfare and provide an expanding market for all products, industrial as well as agricultural. Solution of this problem must be sought through joint attack upon obstacles to international trade on the one hand, and, on the other, through the co-ordination of monetary, financial and other measures to maintain employment and national income. It is therefore essential that the permanent

¹ Cf. text of the British Declaration of Principles at the Food Conference, in *New York Times*, 24 May 1943, p. 7.

agricultural organisation maintain close liaison with other permanent institutions working in the related and equally important fields of currency, trade, investment and social policy.

(2) *International Monetary Arrangements*

The function of the London Money Market in the nineteenth century in acting as a clearing house of international payments and as a stabilising influence on the foreign exchanges has been described above. The successful operation of such a system depended upon flexibility of costs and prices and on the willingness of countries to adapt their productive structures in response to external influences. That system finally broke down. The main reasons for its collapse are to be found in the technical and organisational changes in production and trade, to which attention has already been drawn. These changes influenced and were in turn influenced by the violent upsurge of economic nationalism after the war of 1914-18.

It remains true, however, that the great improvements in living standards which modern agricultural and industrial techniques have made possible can be brought to ordinary people only if a large and expanding volume of goods and services moves relatively freely across national frontiers. A necessary precondition for the re-establishment of such a system of international trade is the existence of a multilateral clearing system based on stable exchange rates.

But there can be no return to the nineteenth century. Post-war currency reorganisation must take account of the elements of rigidity and potential instability which have developed in national economic systems. It must also allow for the change of opinion as to adequate standards of social security. Any acceptable post-war international monetary mechanism must make possible the healthy development of international trade but at the same time must not frustrate the desires of national governments to maintain a high and stable level of employment and national income.

The Governments of the United Nations have already given considerable attention to the problem of post-war international monetary arrangements. In the first half of 1943, the United States, British and Canadian Governments each announced tentative plans for the reconstitution of an international monetary system after the war. In addition two prominent French financial experts drafted a plan with similar ends in view.¹ After these proposals

¹ The American plan for an International Exchange Stabilisation Fund is understood to have been mainly the work of Dr. Harry D. White, Director of the Division of Monetary Research of the United States Treasury while the authorship of the British proposal for an International Clearing Union, issued

had been discussed by technical experts for almost a year, a *Joint Statement by Experts on the Establishment of an International Monetary Fund of the United and Associated Nations*¹ was issued in April 1944. On the basis of this "statement of principles", delegates of the 44 United and Associated Nations met in a formal diplomatic conference in July, and drew up definite proposals for action. Subject to ratification by national legislatures, the agreement reached at the United Nations Monetary and Financial Conference held at Bretton Woods will enter into force "when it has been signed on behalf of governments having sixty-five per cent. of the total of the quotas . . . , but in no event . . . before May 1, 1945".

The agreement proposes that an International Monetary Fund of 8.8 billion U.S. dollars, subscribed in gold and local currencies, be set up by the United Nations. A schedule of quotas, or subscriptions, is specified, the share of the United States being 2,750 million dollars, that of Great Britain 1,300 million, and that of the Soviet Union 1,200 million. China will subscribe the next largest quota, 550 millions, France 450 millions, India 400 millions and other countries smaller amounts. One quarter of a member country's quota or 10 per cent. of its holdings of gold and United States dollars (whichever is the smaller) is to be subscribed in gold. The purposes and policies of the Fund will be:

(i) To promote international monetary co-operation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income, and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

as a Government document in April 1943 is commonly attributed to Lord Keynes, a member of the Court of the Bank of England and adviser to the British Treasury. The French plan, prepared by Messrs. André Istel and Hervé Alphand, was published in the *New York Times*, 9 May 1943, Section 5. The Canadian proposal for an International Exchange Union was issued as a Government document on 9 June 1943. Cf. *International Labour Review*, Vol. XLVIII, No. 2, Aug. 1943: "Proposals for International Exchange Stabilisation: Analysis of British, Canadian, French and United States Plans", pp. 157-173. by L. B. JACK.

¹ U.S. TREASURY (Washington, D.C., 1944).

Thus the main aims of the Fund clearly centre on the related tasks of maintaining stable exchange rates, establishing a system of multilateral clearing, and providing adequate supplies of international short-term credit.

In the chaotic conditions which will prevail at the close of the war, however, these will seem like long-range objectives. Before any solution of them can be attempted, certain emergency measures must be taken to create an atmosphere favourable to such a solution. One of the first tasks of monetary reorganisation, for example, will be to free national monetary systems from their ever-increasing load of blocked balances. Sterling balances that have been accumulated in London to the credit of suppliers of essential materials all over the world are already so large¹ that it would be impossible to open the market to free transactions in sterling so long as the threat existed that payment of these balances might be suddenly demanded. In occupied Europe, many countries will find themselves pillaged of both real goods and liquid assets, having received nothing in return but worthless paper and large clearing balances in Berlin. Strictly speaking, problems such as these do not seem to fall within the scope of the Fund's normal operations.

It is recognised, however, that in the transitional period some members may have to maintain, adapt, and even introduce restrictions on payments and transfers for current international transactions. The Fund, however, provides machinery for the progressive removal, as soon as possible, of these restrictions damaging to world trade, and for aiding members in choosing exchange rates at which a large volume of international payments can be cleared multilaterally. It could thus serve as a permanent agency of consultative co-operation on international monetary matters.

Until very recently the fixing of exchange rates, or more exactly of gold parities, was considered to be a matter of national concern only. In the second half of the nineteenth century, when country after country adopted the gold standard, each did fix the gold value of its currency independently. But in so doing it chose a value which corresponded at least approximately to an already existing equilibrium. In the currency reorganisation after 1918, on the other hand, any semblance of an equilibrium had been destroyed by the damage and dislocations of war. Under such conditions it would have been practically impossible for all countries, each acting independently, to choose the rates of exchange which would have restored equilibrium in the international balance of payments. Some countries, notably Great Britain, do not appear to have paid

¹ Recently estimated to reach 12,000 million dollars by the end of 1944.

much attention to the crucial question of the restoration of international equilibrium. When in 1925 the pound sterling was restored to its pre-war gold parity, Mr. Keynes was quick to point out that sterling was then overvalued by about ten per cent. Inevitably the industries catering for the export market suffered acutely. France, on the other hand, stabilised the franc at a level well below the equilibrium point.

A decade of monetary nationalism, in which the gold standard was abandoned by virtually all countries, has made it clear that no country ever did possess the power to fix unilaterally the value of its currency in terms of other currencies. For a rate of exchange is nothing more than a ratio, whether one currency be expressed directly in terms of the other, or whether each currency be expressed in terms of a common medium such as gold. According to the agreement reached at Bretton Woods, the par value of a member's currency is to be expressed in gold and agreed with the Fund when the latter is of the opinion that it will shortly be in a position to begin exchange transactions. Thus the fundamental principle of determining post-war exchange rates or parities, neither by unilateral decision nor by bilateral negotiations, but by consultation and joint action among the member states, is explicitly recognised.

The agreement does not suggest means of determining parity levels. Indeed it is unlikely that any general formula could be devised for arriving at these, for prices in different countries now move in response almost exclusively to internal developments. As a result national price systems have become virtually independent of one another, and are determined chiefly by the financial and fiscal policies of governments and the effectiveness of price controls and rationing programmes. Measures taken after the war to fix parities will be determined by conditions then prevailing and these cannot now be known. Yet it cannot be reiterated too often that these decisions will be among the most important in post-war policy; for the exchange rate is the pivot upon which a country's external economic relations turn. A rate set too high, for example, may subject a country to the loss of export markets or to a painful deflation of domestic production costs, including wages. Although it is impossible to give answers now to problems that are still unknown, it seems essential that some mechanism, such as the Fund, be created as soon as possible to deal with these problems when they arise.

The agreement recognises the complexity of these adjustments¹

¹ But the devaluation of the Belgian franc in 1935, for example, shows that under favourable conditions such calculations need not be of the hit-or-miss variety.

and offers an extremely practical solution. After countries have, upon admission, agreed with the Fund on provisional parity levels, the Fund's power to acquire and sell local currencies will be used to protect these from destructive speculative raids, and nurse them through an experimental period long enough to determine their viability. Then, if a currency so pegged proves to be substantially out of line, the member country may, after consulting the Fund, change the established parity of its currency up to a maximum of ten per cent. of the initial par value. If the proposed change "does not exceed a further ten per cent. of the initial par value, the Fund may either concur or object" within three days. If further changes are proposed, the Fund is to be entitled to a longer period in which to declare its attitude. The Fund can thus provide a flexible mechanism through which exchange rates may be adjusted to the new international equilibrium. As is specifically stated, it will interfere as little as possible in the domestic affairs of member countries, and in particular, provided it is satisfied that a proposed change is to correct a fundamental disequilibrium, the Fund "shall not object to a proposed change because of the domestic social or political policies of the member proposing the change".

If the difficulties of the early transition period are successfully surmounted, the character of the Fund's operations will change. From being an instrument of monetary demobilisation and reconversion in which the emphasis will be on consultative co-operation, it will become, if circumstances improve, an equilibrating mechanism managed, somewhat like a national exchange equalisation fund, according to a set of empirically derived rules designed to maintain balance in a system essentially in equilibrium, but in which the balance is apt to be disturbed suddenly by speculative, cyclical and other crises. In this situation the main function of the Fund will be to provide foreign exchange within specified limits and upon certain conditions, to those member countries requiring it. If a member country desires a certain amount of the foreign currency of another member country for reasons consistent with the purposes of the Fund, and if the Fund holds an adequate amount of the currency desired, the member¹ will be able to buy from the Fund until the Fund's holdings of its currency are equal to double the value of its quota at the rate of not more than 25 per cent. in any twelve-month period. The Fund will, however, retain considerable discretionary power, since it reserves the right to waive any of these conditions on terms which safeguard its interests.

¹ Strictly speaking, its Treasury, Central Bank, Stabilisation Fund or other fiscal agency.

Fears have been expressed, especially in United States banking circles, that the Fund might be used to peg weakened currencies at levels which could not in the long run be maintained, and that through it large amounts of credit would be given by the strong currencies to the weaker, the only effect of which would be in the end to weaken the strong. Such criticism misunderstands both the place of the Fund in post-war economic reconstruction and the limits of its operations. The Fund will not undertake the stabilisation of national currencies or the reconstruction of national economy nor will it render those things any less necessary; it can only give governments an opportunity to choose, and a breathing space in which to undertake, solutions to their national economic problems which will not be harmful to the world economy. If these solutions are not achieved, no attempt at international currency stabilisation can succeed. Conversely, if currency stabilisation is postponed until national economies are rebuilt, it is unlikely that the individual economy can then be fitted into a world economy of expanding production and trade.

The Fund's capacity to extend credit is strictly limited. It can easily be shown that if all countries paid up the required 25 per cent. of their quotas in gold, the total dollar and gold assets of the Fund would be about \$4,250 million. In fact, the total will probably be much less, and the rights of members to borrow from the Fund are carefully restricted. Many nations will at first be able to subscribe only a small proportion of their quotas in gold or foreign assets, so that the lending power of the Fund will be very much less than \$4,250 million and by no means large enough to impair the stability of the stronger currencies.

Although one of the Fund's objects is "to facilitate the expansion and balanced growth of international trade", it can do this only by keeping exchange rates stable, and, to a limited extent, by financing current trade. Actually it is rather probable that most nations will be reluctant to use their borrowing power at the Fund to the limit to finance imports but will regard it mainly as a last line of monetary reserves to be drawn upon only in emergency to relieve sudden temporary strains on their balances of payments. The Fund will therefore only supplement but cannot replace the agencies which provided trading credit before the war. It can not, and is not meant to, perform the function of the organised money market in London before 1914 in providing an adequate fund of international short-term credit. The question of how that is to be done remains unanswered.

The "Obligations of Member Countries" are confined to the maintenance of exchange rates and abstention from imposing

restrictions on current payments and to the furnishing of information to the Fund. There is no mention of the obligation of surplus countries to use their accumulated balances to increase their purchases from abroad. In the inter-war years the persistent refusal of some countries, notably the United States, to accept most imports other than gold contributed in no small measure to the world's economic difficulties. Not only did it perpetuate maladjustments within these economies; it also exerted powerful deflationary pressures on the rest of the world. Unless creditor countries follow commercial policies consistent with their international economic positions, and increase their purchases from abroad, deficit countries will in the end, and despite any action which the Fund may take, be forced to redress their balances of payments by restricting purchases from abroad. In other words, they will be compelled to adopt exchange control.

Stabilisation of the exchange rates and provision of a fund of international short-term credit are thus closely linked to post-war commercial policy. The setting up of such a Fund will be a modest step in the right direction. But alone it will not be enough. The success of even the soundest plan for currency stabilisation will depend upon the degree of international co-operation in the fields of commercial policy and foreign investment.

(3) *Commercial Policy*

The raising of consumption levels and the maintenance of high and steady levels of employment and economic activity after the war will depend to a great extent upon the co-ordination of national credit policies and the restoration and balanced growth of world trade.¹ Although exchange stability and the existence of an adequate fund of short-term credit are necessary pre-conditions of any commercial expansion, they cannot themselves bring it about. Without the liberal trading policy of Great Britain in the nineteenth century, the London Money Market could never have developed into the centre through which the bulk of international payments were cleared. Only British readiness and ability to import a large volume of goods from abroad made sterling exchange available in sufficient quantities to keep the money market liquid. Unless there is an abrupt reversal of pre-war restrictionist commercial

¹ Indeed, for some countries, notably Great Britain, the existing standard of living can be maintained after the war only with the aid of exports on a scale exceeding that of the immediate pre-war years. Not only has Britain's "invisible income" from past investments decreased by the liquidation of earning assets abroad; in addition the shortage of raw materials within its own borders continues to increase although this may be offset to some extent by increased productivity of domestic agriculture.

policies, no international monetary system could long survive. The provision of credit only allows a breathing space in which necessary adjustments can be made; it does not remove the necessity for making these adjustments.

In pre-war years obstacles to world trade took many forms. Imports were restricted directly by tariffs, quotas, cartel policies, and similar devices, or indirectly by control of the foreign exchange which was needed to pay for imported products. In the last section, means were discussed which might be used to remove the necessity for the imposition of discriminatory exchange control. Here methods will be explored by which the direct restrictions upon the free flow of trade might be eased.

In general, the waging of economic warfare has resulted in a further spread of the manifold weapons used by national governments to restrict the entry of foreign goods. But exchange of goods between allies has in some cases been facilitated. The United States, Canada, and Great Britain, for example, have practically suspended the operation of protective tariffs in their mutual exchange of war materials. The Master Lend-Lease Agreements, too, foreshadow a freeing of the channels of international trade. Article VII runs in part as follows:

In the final determination of benefits . . . the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between these and the betterment of world-wide economic relations. To that end they shall include agreed action . . . open to participation by all other countries of like mind, directed to the expansion by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the [Atlantic Charter].

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments.

In the projected negotiations on the settlement of lend-lease obligations, considerable steps might be taken to remove obstacles to international commerce by the negotiation of a multilateral agreement designed to restore the essential conditions of competitive trading. It is not always realised how much damage has been done to the trading system by which economic and social progress benefited so greatly in the nineteenth century. It is necessary to take action to restore "national treatment", the guarantee of trading conditions equivalent to those enjoyed by a national citizen. Trade

and travel are not as simple as they used to be. Formalities need to be simplified, discriminations against foreign traders need to be removed.

If the conditions of competitive trade can be restored there will be real possibilities of negotiating reciprocal trade agreements based upon equality of trading opportunity. This method of reciprocal bargaining has been used with good effect by the United States for almost a decade. The renewal last year by Congress of the executive power to negotiate such agreements has established it even more firmly as the cornerstone of American economic foreign policy. If it were used more vigorously than has been possible in the past it could be of great influence in the reconstruction of international trade after the war.

A series of treaties with Great Britain and the Dominions might be the best starting point. Since 1932, the Ottawa preferential agreements have operated as powerful instruments of imperial protectionism. In addition the huge buying power of Great Britain enabled her to negotiate a series of bilateral agreements with countries such as Denmark and Argentina which made it difficult for these countries to negotiate reciprocal agreements with the United States. Since September 1939, the system of preferences has been reinforced by a tight and effective mechanism of imperial exchange control.

In spite of the concessions already made by the United States under the Reciprocal Trade Agreements Act, the greatest single obstacle to the expansion of multilateral trade is the high level of the Hawley-Smoot tariff. If the terms of Article VII of the Lend-Lease Agreement with Great Britain would seem to call for the surrender of the principle of imperial preferences, a substantial scaling-down of American tariff schedules would also seem to be the only acceptable *quid pro quo*. Unless the American protective system is thus moderated, plans for international monetary reorganisation are likely to end in failure, with the United States holding large credit balances (or stocks of gold) which she refuses to put to work.

A British-American trade agreement involving substantial concessions by both parties would open the way for a considerable widening of the channels of trade. Concessions granted to the Dominions on imports of foodstuffs and raw materials would be granted automatically to South American primary producers. American concessions to British manufactured imports would likewise be extended to other European manufacturing nations.

Such an agreement would obviously make inevitable considerable measures of adaptation to the changed conditions. Voices have

already been raised in Great Britain against such a policy on the ground that Britain will be unable to compete with the great American mass-production industries and that a large volume of domestic agricultural production is necessary for national security.¹ During the war, however, Great Britain has shown that it can produce many war goods at less labour cost than the United States. It can no longer produce cottons for export to India; the wartime "concentration" of the cotton industry is in part a much-needed adjustment. It must abandon its trust in the bulk goods that brought it to the forefront in the nineteenth century, make more attempt to find out what its customers want, and concentrate on markets which are likely to expand.² Openings for such expansion are likely to be found in the light engineering trades which not only pay high wages but are also economical in their raw material import needs. In the United States some agricultural products, notably wool, and some manufacturing industries, of which the textile producers are probably the largest group, located chiefly in the New England States, would be likely to suffer. But if a high level of employment and rising volume of world trade can be maintained and secondary deflations thus prevented from spreading, these adjustments would not be too difficult.

Although such bilateral negotiations, which have proved their worth in the past, could be used effectively to reduce barriers to world trade, alone they could not be sufficient. The experience of the Reciprocal Trade Agreements programme indicates that this method has not been very successful in dealing with direct quantitative restriction on trade or in eliminating discriminatory trade relations between countries, one or both of which conduct part or all of their foreign trade as a government monopoly.³ Neither can bilateral agreements, incorporating the most-favoured-nation clause be effective if concessions made in them can be nullified by a private international cartel agreement arbitrarily dividing the export market. Under such conditions the automatic generalisation of concessions is an empty phrase.

The problem of trade relations between "regulated" and "unregulated" economies will be of great importance. Professor Viner has suggested that a multilateral conference of nations "at all inclined toward the elimination or substantial reduction of direct

¹ E. g., *Reconstruction*, Report by Federation of British Industries (London, May 1942).

² Cf. C. M. WRIGHT: *Economic Adaptation to a Changing World Market* (Copenhagen, 1939).

³ These problems have been treated in the recent study prepared for the League of Nations by Professor Jacob VINER: *Trade Relations between Free-market and Controlled Economics*, *op. cit.*

controls of foreign trade" should be held to draw up a convention binding the signatory countries:

- (1) To move toward elimination of direct controls on a mutually-agreed time schedule;
- (2) To define the practices which would not be permissible in the trade relations between participating countries;
- (3) To formulate the procedures to be followed in common in trade relations with non-participating countries adhering to direct controls; and
- (4) To participate in the setting up of a continuing international agency to which questions of violation of the convention, of needed revision of its terms, and of admission of new countries could be referred.¹

Professor Viner is well aware of the difficulties involved in reaching a significant agreement on these questions. Indeed he concludes that the most feasible agreement would be a convention the general provisions of which were relatively rigorous, but which would make provision for exemption from these provisions in particular cases subject to the approval of the international supervisory agency outlined in his point (4)². It does not appear likely, however, that State participation in international trade will diminish. Russian trade will continue to be conducted by Government monopoly, and the imports of capital goods for development purposes into hitherto industrially backward countries may well be carried out by government agencies. It would seem advisable, therefore, that the convention should aim first at the elimination of discriminatory and restrictive types of direct regulation of trade.

The supervision and control of international cartels promises to be one of the most difficult of all post-war international economic problems.³ Since, as we indicated earlier and as recent events have shown⁴, these private organisations, controlling whole segments of the world economy, seem on occasion to have operated against the general interest and since there are *a priori* reasons for believing that they may tend to do so, a strong case can be made for the regulation of their activities. But how is this to be achieved?

¹ *Op. cit.*, p. 88.

² "... since it will in all probability be a pre-requisite for general acceptance of a significant agreement that some provision be made for the particular situation or special circumstances of individual countries, a rigid convention not allowing of any important exceptions does not appear to be an available alternative. The desirable and conceivably attainable solution of this difficulty would appear to be an agreement whose general provisions were fairly rigorous; but with provision for exemption from these provisions in particular cases upon application to the international supervisory agency and approval thereby." *Ibid.*, p. 91.

³ As Professor Viner has observed in another connection, "when monopoly power is present, there does not seem to be available any general formula, capable of practical application and not somewhat arbitrary, which would restrain the use of that power for economic advantage". *Op. cit.*, p. 81.

⁴ Cf., for example, speeches of the Assistant Attorney General in charge of the Anti-Trust Division of the United States Department of Justice reported in the *New York Times*, 23 Apr. and 29 June 1943.

Information on cartel organisation is difficult to obtain. Sometimes the organisation of even a large and influential cartel is slight and informal.¹ Furthermore, the attitudes of national governments, both towards private monopoly at home and towards participation by their nationals in international industrial agreements, have varied from bitter opposition to encouragement and assistance. Since the nation-State is the dominant authority in economic affairs, no attempt to control the activities of international cartels can succeed without the support of national governments. It is by no means certain that this support will be forthcoming. It is even less certain that such support, if given, will be sufficient. In these circumstances no final solution can be offered, but an approach to the problem might be made along the following lines. If it were obligatory to make public the terms of all proposed international industrial agreements, an analysis of their probable effect upon international commerce could be made, and suitable action recommended to national governments. It must be recognised, however, that such a procedure will depend, like all international institutions, upon the will of the States to make it work.

(4) *International Investment*

It is in the field of international lending on long term that the greatest changes in organisation are needed. There have been numerous proposals, utopian as well as realistic, for planned economic reconstruction and development to offer outlets for the expanded capital-goods industries of the great manufacturing countries. Some such development programmes, notably in Latin America, have been started during the war in co-operation with agencies of the United States Government.

Capital will be needed chiefly for two purposes, the rebuilding of devastated areas, and the modernisation of hitherto industrially backward countries. In the first case the main aim will be to restore former levels of productivity; in the second, the aim will be to raise former levels of productivity and thus provide a solid basis for expanding international trade and rising consumption levels. At the outset certain questions of principle relating to international long-term lending must be raised.² We have already alluded to the effect on a country's balance of a large foreign debt. In an economic system characterised by wide variations in the level of economic activity, the existence of a large volume of foreign indebtedness at

¹ Cf. ERVIN HEXNER: *The International Steel Cartel* (Chapel Hill, N.C., 1943).

² Cf. LEAGUE OF NATIONS: *The Transition from War to Peace Economy*, *op. cit.*, pp. 95 *et seq.*

fixed interest has been a continual source of disequilibrium among the debtor countries.¹ If prices for their products on the world market sag, they tend to market increased quantities of these products, spoil the market and reduce their own capacity to import. On these grounds equity investment should therefore be preferred to debt whenever possible.

In recent years equity investment has mainly taken the form of direct investment by great industrial corporations. Branch plants have been constructed, or existing industrial capacity has been bought. So long as a mechanism existed whereby their profits could be transferred to the investing country the lenders were satisfied. They were concerned only incidentally with the welfare of the people in the countries in which they built their plants. They had little or no interest in raising domestic living standards, or offering to the inhabitants opportunities for personal development except in so far as these contributed directly to the profitability of their own concerns. Against the utility of this type of "investor's investment" for economic development there must therefore be set the disadvantage that it may, especially where governments in the borrowing countries are weak or corrupt, develop into a new kind of "financial imperialism".

The post-war world is not likely, at least in the beginning, to offer much encouragement to risk-taking capital. In the great industrial countries, which are also the potential exporters of capital, the greatly increased burdens of taxation will bear heavily on venture capital. Many have also suffered great damage from enemy action and will not have much capital available for investment abroad. Remembering, too, their disastrous experience with international loans after the last war, investors are likely to be timorous and unwilling to risk their capital abroad even at high prospective rates of return.

In the borrowing countries, national resistance to the inflow of foreign capital has increased. Discriminatory taxation, more stringent laws relating to the operation of foreign-owned enterprises, and even expropriation, were familiar even before the war. In some countries, notably in the Soviet Union, national plans for economic development, designed to meet the needs of military strategy as well as of the common welfare, have already been successfully carried through. In many countries, and especially in the industrially undeveloped areas, there will be considerable pressure from within to exclude foreign capital, especially entrepreneurial investments,

¹ Cf., for example, G. L. WOOD: *Borrowing and Business in Australia* (London, 1930), and C. F. REMER, in introduction to H. G. CALLIS: *Foreign Capital in Southeast Asia* (Institute of Pacific Relations, New York, 1942).

and rather to use for economic development the scarce supplies of capital available at home.

One further change in the conditions of supply of foreign capital must be mentioned. While portfolio investments in general have declined relatively in recent years and the new issue market has become less important as a mechanism for mobilising capital for investment abroad, the State has steadily become a more powerful factor in regulating the flow of capital. Of the rather small volume of international loans contracted since 1929 the majority have been undertaken either by governments directly, or with government assistance. This lending has taken various forms. In order to promote export trade, especially with countries trading under exchange control, and with the U.S.S.R., and other areas where investors were unwilling to risk their capital and the borrowers sometimes did not wish to contract long-term debt, machinery was developed for the purpose of providing short and medium-term credits carrying a government guarantee. In Great Britain, a pioneer in this field, the provision of medium-term credits for the purchase of capital goods grew in volume in the years just before the war and partly replaced the new issue market as a source of capital supply. These loans were given, however, in return for a guaranteed export market. Governments also encouraged investments in certain areas—sometimes, but not always, colonial possessions—for political purposes, and even themselves undertook direct investments for strategic ends. The more recent loans for stabilisation and relief have been exclusively intergovernmental. This development has advantages but it also has dangers; for if political conditions are unstable, every such loan transaction may easily become a diplomatic incident.

The nineteenth century system of private international investment in the form of loans subscribed by private investors for foreign enterprises and governments was an instrument of the greatest period of economic development the world has yet seen. It also had great faults. It was often wasteful and misdirected. When capital flowed from the great lending centres of the west to industrially primitive areas, to take advantage of the plentiful natural and human resources, the lenders paid little attention to the educational and social development of the native populations. But that system, with the connected system of international trade, has gone, and there is urgent need for new institutional arrangements designed so as to retain the desirable features of past forms of international investment while eliminating their more unwelcome aspects.

The need for international machinery through which national programmes of industrial reconstruction and development can be

cleared and the international movement of capital can be promoted is increasingly recognised¹, and considerable progress has recently been made at the United Nations Monetary and Financial Conference where agreement was reached to establish an International Bank for Reconstruction and Development. Before discussing this proposed institution it may be well to consider what functions such an authority might properly be called on to perform.

Lack of care in the granting of foreign loans after the last war and lack of control over their expenditure played an important part in the collapse of 1931 and an international reconstruction and development authority could exercise the supervision necessary to prevent the recurrence of such a collapse.

One of its most important functions might be to register all international loan and investment transactions, both public and private. The institution would receive from the international monetary authority information on international balances of payments and thus would be able to see when a country was over-borrowing or overlending on long term. It would also advise borrowers and lenders as to the desirability of prospective transactions.

It seems both necessary and desirable that such an agency should also itself mobilise and lend at least part of the capital needed and also guarantee loans granted through other channels. The risks involved in providing capital for the restoration of devastated areas, for example, are not properly regarded as commercial and should not be shouldered by private investors. Besides it is doubtful whether private capital will again be forthcoming for this purpose. The experience of investors with reconstruction loans after the last war is still a vivid memory. If such loans are made, they should be made through or guaranteed by the international agency; by this means the risks of political pressures and frictions would be lessened. In addition it would be easier to arrange for a more flexible system of amortisation through such an organisation. If a debtor country's balance of payments showed that it was in temporary distress, amortisation payments could be scaled down or temporarily suspended. When the creditors are large numbers of individual bondholders who are unaware of the economic position both of their own and of the debtor country, such a

¹ Cf. the resolution concerning economic policies for the attainment of social objectives which was adopted by the 26th Session of the International Labour Conference (Philadelphia, 1944), and which recommends, *inter alia*, that "the existing machinery of the international capital market should be supplemented by the establishment of appropriate international machinery for the purpose of promoting the international movement of capital". For this part of the resolution, see pp. 128-129 below.

suspension is much more difficult to secure even though it is economically the soundest policy.¹

The risks involved in lending to undeveloped countries for economic development will generally be less than those attached to reconstruction loans. Equity investment would therefore be possible here as well as economically preferable since it does not impose a fixed debt burden on the borrower. But national resistance to private equity investment has now become strong chiefly in those very areas which lack capital for their economic development. Though programmes of basic economic development, such as the provision of transport and power, should be controlled by national governments and financed as far as possible with domestic funds, foreign financial assistance will frequently be necessary. It is impossible to set down hard-and-fast rules according to which an international institution should give assistance, but it would seem advisable that aid should be confined, as far as is practical, to the provision of materials and equipment required from abroad. The purchase of those materials available within the borrowing country's borders should be financed through the national banking system. This procedure would minimise transfer difficulties at the repayment stage. If equity investments can be arranged through the international institution they should be preferred to loans; otherwise provision should be made in loan contracts for a relatively flexible system of amortisation.

In the past, private initiative provided not only the capital for economic development but also the technical knowledge necessary to carry out that development. If private enterprise is to be replaced in some fields of foreign investment, alternative methods must be found of providing the technical knowledge necessary to execute plans for economic development. If an international reconstruction and development authority is to be successful it should therefore undertake surveys of proposed programmes and suitable methods of executing them and also give expert technical advice and provide for the training of suitable technical personnel within the countries concerned. The work of the League of Nations, particularly of the Health Section, in China, in bringing students to advanced scientific centres for further study and in organising the training of public health workers in China itself, is instructive in this respect. In the present war a good deal of valuable experience in this field is being gained by the various agencies of the British and American Governments, who in their efforts to maximise production of strategic materials have sent technical missions and ad-

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¹ LEAGUE OF NATIONS: *The Transition from War to Peace Economy*, *op. cit.*, p. 98.

visers to various parts of the world and have even assisted in large public works and development programmes. This experience should not be lost.

An international body supervising the volume and direction of international investment could perform at least one further important function. The capital assistance provided in the past through private investment decisions was sometimes wasteful and often spasmodic. Although mainly an advisory body, such an international agency could, as far as its power of regulating the volume and direction of the flow of international capital went, exercise contractionist or expansionist influences either on the world economy as a whole or upon particular parts and thus help to mitigate cyclical fluctuations.

The United Nations Monetary and Financial Conference, believing that expanded international investment is a necessary prerequisite for economic reconstruction and development, agreed, subject to ratification by national legislatures, that an International Bank for Reconstruction and Development would be established at a suitable date after 1 May 1945. It remains to examine, briefly, first, what the scope and functions of the proposed institution are to be, and second, whether it is likely to fulfil the needs set forth above. As stated in the agreement the purposes of the Bank are:

(i) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

(ii) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living, and conditions of labour in their territories.

(iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

The authorised capital stock of the Bank is set at 10,000 million U.S. dollars to be subscribed by the members according to a mini-

imum schedule drawn up by the Conference. Out of 9,100 million dollars, the total of the minimum subscriptions, the share of the United States is to be 3,175 million, that of Great Britain 1,300 million, of the U.S.S.R. 1,200, of China 600 and of France 450. Of these subscriptions only 20 per cent. is to be paid up or subject to call for the Bank's operations, while the remaining 80 per cent. is subject to call only to meet specific obligations such as, for example, a default on a loan guaranteed by the Bank. Of the 20 per cent. to be used for the operations of the Bank only 2 per cent. is to be paid in gold; the remaining 18 per cent. is subject to call and payable in national currencies.

The Bank can directly encourage international investment in three ways: (i) "by making or participating in direct loans out of its own funds" (*i.e.*, its unimpaired paid-up capital and surplus); (ii) "by making or participating in direct loans out of funds raised in the market of a member, or otherwise borrowed by the Bank"; (iii) "by guaranteeing in whole or in part loans made by private investors through the usual investment channels".

If, for example, a member decides upon a specific project of reconstruction or development and cannot get the necessary finance through normal channels, it may apply to the Bank. The latter will then appoint a committee to study the proposal. If this committee approves the project and the Bank is satisfied that the rate of interest and other charges are reasonable and appropriate, it may make, participate in, or guarantee a loan to the member for that specific project. In the case of reconstruction loans special regard is to be given to the lightening of the financial burden imposed by the loan. No loan may be "tied" to purchases in any specific country, but any loan of national currency must have the approval of the member whose currency is involved. Outstanding guarantees, participations in loans, and direct loans may not exceed 100 per cent. of the Bank's unimpaired subscribed capital, reserves and surplus.

Thus, though the scope of the Bank's activities is relatively wide, the size of its operations is strictly limited. It is clear from the subscription provisions that its main function will be to guarantee loans rather than to make or participate in them. Guarantee commissions will constitute its main source of income, out of which guarantees will be met in cases of default. Its actual initial capacity to make direct loans will not be much more than its resources in gold and U.S. dollars. The initial paid-up capital will be \$182 million. A further \$571 million is callable in U.S. dollars, making \$753 million in all. This may increase to \$2,000 million as the total authorised capital is raised to \$10,000 million, as calls are

made, and as national currencies become freely convertible. Yet the importance of the Bank's power to guarantee loans should not be underestimated. The League of Nations loans, floated with a somewhat similar guarantee, did much to stabilise the economies of Austria and Hungary in the early 'twenties. It was no fault of these loans that that stabilisation was of short duration.

The proposed Bank will therefore be in a position to perform most of the functions which we have mentioned as being within the scope of an international investment authority. Its lending capacity may be considerably smaller than some might think desirable, but in view of the relatively small amounts of capital likely to be available in practically every country except the United States for international investment after the war, this is only to be expected. No express provision is made for the registration of all international financial transactions, but the Bank could not function adequately if the loan committees were not in possession of sufficient information on the positions of borrowing countries on both current and capital accounts.

We concluded earlier that wherever possible equity investment should be preferred to loans, on the ground that the flexible burden makes it preferable both to borrower and lender. On the one hand, it does not impose such a strain on the borrower's balance of payments as do loans at a fixed rate of interest, and, on the other, it has in the inter-war years weathered periods of depression much better than the latter. If loans are chosen, we have argued that provision should be made for some flexibility in interest and amortisation payments. The Bank could hardly participate in equity investment, but it has made provision for relaxation of conditions of interest and amortisation payments in cases of acute exchange stringency. Such provisions do represent a means, albeit somewhat weak and negative, of combating cyclical disturbances.

While it seems probable that neither national policy nor international equilibrium will again allow uncontrolled private investment decisions to chart the course of economic development, this does not mean that private enterprise and investment will have no place in the future organisation of international lending. The Bank so far from taking the place of productive private investment, would rather encourage it, both through its guarantees, and by helping to bring about stable international economic relations. Private medium-term investment, perhaps backed by Government guarantee, may again become important in financing the export of capital goods to some countries. The extent to which private direct investments are permitted will vary from country to country, but in industrial States, where gov-

ernments are strong, resistance to such foreign capital will probably be slight. The actual work of construction of both public and private enterprises is likely to be undertaken mainly by private firms. Where such firms are not indigenous to the countries concerned, they should build the projects on contract, and when they have completed the work, take payment and leave the ownership and management in national hands.

Not all of the fields in which economic co-operation is desirable have been mentioned under the four main headings of the foregoing discussion. Transport, for example, has been omitted, though it is essential to trade and involves problems of great complexity which national action alone is powerless to solve. Nor has any reference been made to those problems of double taxation, customs nomenclature and indirect or "administrative" protectionism which so often baffle traders and which require to be solved if the world is to derive full benefit from a more liberal commercial policy.

Food, agriculture and raw materials, money, commerce and investment represent, however, the four great fields in which international co-ordination of national economic policies is essential if high levels of employment and economic security are to be maintained and if the improvement of living standards is to progress beyond the relatively narrow limits attainable through independent national action.

CONCLUSION

This study began with a brief statement of the social objectives of a people's peace. Rising standards of living, full employment, social security and economic development are now discussed more widely and in more practical terms than ever before. There can be little doubt that national governments will encounter a widespread and earnest demand for action designed to achieve these objectives. There is equally little doubt that independent and unco-ordinated action by national governments is likely to hinder the international economic collaboration that is essential if employment and security are to be achieved together with high living standards.

For this reason mechanisms of consultative co-operation between national governments are required. The International Labour Organisation is such a mechanism and a start has been made to organise additional examples, notably in the Conference on Food and Agriculture and in the proposed International Monetary Fund and International Bank for Reconstruction and Development. It has become evident that the Governments of the United Nations are moving towards the co-ordination of national policies of improved economic welfare through international institutions. This is the positive approach to a peaceful and co-operative world order.

The piecemeal creation of technical bodies in related and overlapping fields of international co-operation cannot, however, be sufficient. The problems to be solved are both vast and inter-related. Employment and security must be based upon increased productivity, which in turn depends largely upon orderly investment. Agricultural and industrial production, food, and health—indeed all the varied aspects of human welfare—must form part of an integrated economic policy. It is probably wise to start by creating technical institutions for specific functions; but unless those institutions are governed by common aims their usefulness will be limited and they may even work at cross purposes.

If the objectives of a people's peace are to be achieved, therefore, there is no escape from the necessity for a considerable measure of integration and co-ordination of policy both internationally and functionally. Independent international action in regard to labour, agriculture, monetary policy, investment, or health, would be

just as futile as independent action by national governments in any or all of these fields.

Moreover, positive action for the improvement of welfare depends upon the assurance of peace. Freedom from want cannot be achieved without freedom from fear of recurrent aggressive war. Underlying all proposals for international economic co-operation, therefore, is the double assumption that the United Nations will not only be victorious, but will remain united in an effort to lay the foundations of a lasting peace.

It is perhaps true that lasting peace depends upon the creation both of means for constructive economic co-operation and of procedures whereby international disputes may be settled without resort to war. But it is also true that some form of police power is necessary to restrain those national governments which may resort to war rather than accept the procedures of pacific settlement. Economic co-operation, valuable as it may be in promoting individual welfare, can never be an alternative to the political machinery, supported if necessary by police power, which the settlement of international disputes will require. Unless and until effective action is taken to pledge the use of overwhelming force in restraint of the law breakers, economic co-operation among the nations will not be achieved.

APPENDIX

EXTRACT FROM RESOLUTION CONCERNING ECONOMIC POLICIES
FOR THE ATTAINMENT OF SOCIAL OBJECTIVES, ADOPTED
BY THE INTERNATIONAL LABOUR CONFERENCE AT ITS
TWENTY-SIXTH SESSION, PHILADELPHIA,
APRIL-MAY 1944¹

4. Recognising that a satisfactory international monetary system is essential to the full development of mutually advantageous economic relations between nations, and consequently to the raising of standards of living,

The Conference attaches great importance to the establishment at the earliest possible moment of effective international machinery for settling balances arising out of international trade and other transactions and for maintaining stability in rates of exchange, notes with satisfaction that the Governments of the United Nations are giving careful attention to this matter, and urges that they include in any agreement establishing such machinery a provision requiring the authorities responsible for its application to have regard in framing and applying their policies to the effect of their decisions on employment and living standards.

5. Noting that imports of capital will be needed for reconstruction, development and the raising of living standards in many countries, and believing that the provision of such capital will contribute to the maintenance of full employment in the lending countries,

The Conference:

(a) considers that the existing machinery of the international capital market should be supplemented by the establishment of appropriate international machinery for the purpose of promoting the international movement of capital;

(b) considers that the promotion of full employment and higher living standards should be regarded as a primary objective of any such international machinery;

(c) considers that the authorities responsible for the operation of such international machinery should consult the International Labour Organisation as to the appropriateness of including in the

¹ For the full text of the resolution see INTERNATIONAL LABOUR OFFICE: *Official Bulletin*, Vol. XXVI, No. 1, 1 June, 1944, pp. 92-99.

terms under which development works financed in whole or in part through such machinery are to be carried out, provisions regarding the welfare and working conditions of the labour employed; and that such provisions should be framed in consultation with the International Labour Organisation;

(d) affirms the readiness of the International Labour Organisation to render every assistance in its power in determining the appropriateness of the inclusion of such provisions and in their framing and application and in the promotion through the operations of such international machinery of the general objectives of full employment and higher living standards.

6. Recognising the great contribution which the international exchange of goods and services can make to higher living standards and to high levels of employment,

The Conference:

(a) believes that the measures proposed in the foregoing paragraphs for the promotion of exchange stabilisation and international lending will contribute to the expansion of international trade, but considers that the United Nations should also examine wartime changes in industrial capacity, should arrange for exchange of information on post-war industrial programmes and should take vigorous action to promote the expansion of international trade by appropriate commercial policies; and considers that all countries, creditor as well as debtor, should adapt their commercial policy in such a way as to enable them to settle all obligations arising out of international transactions;

(b) considers that the United Nations should initiate measures to facilitate the co-ordination through appropriate international machinery of the commercial policies of all countries for the purpose of promoting a steady expansion in world trade on a multilateral basis;

(c) considers that in such co-ordination special consideration should be given to the need of countries which are highly dependent on returns from exports to take measures to ensure a high degree of stability in the level of their economic activity and observes that the need for these measures will decrease to the extent that international collaboration proves successful; and

(d) considers that in such co-ordination special account should be taken of the dislocation and the accumulated needs resulting from the devastation caused by war operations and from the prolonged diversion from peacetime production in countries which have been engaged for a long period in a sustained and total war effort.

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